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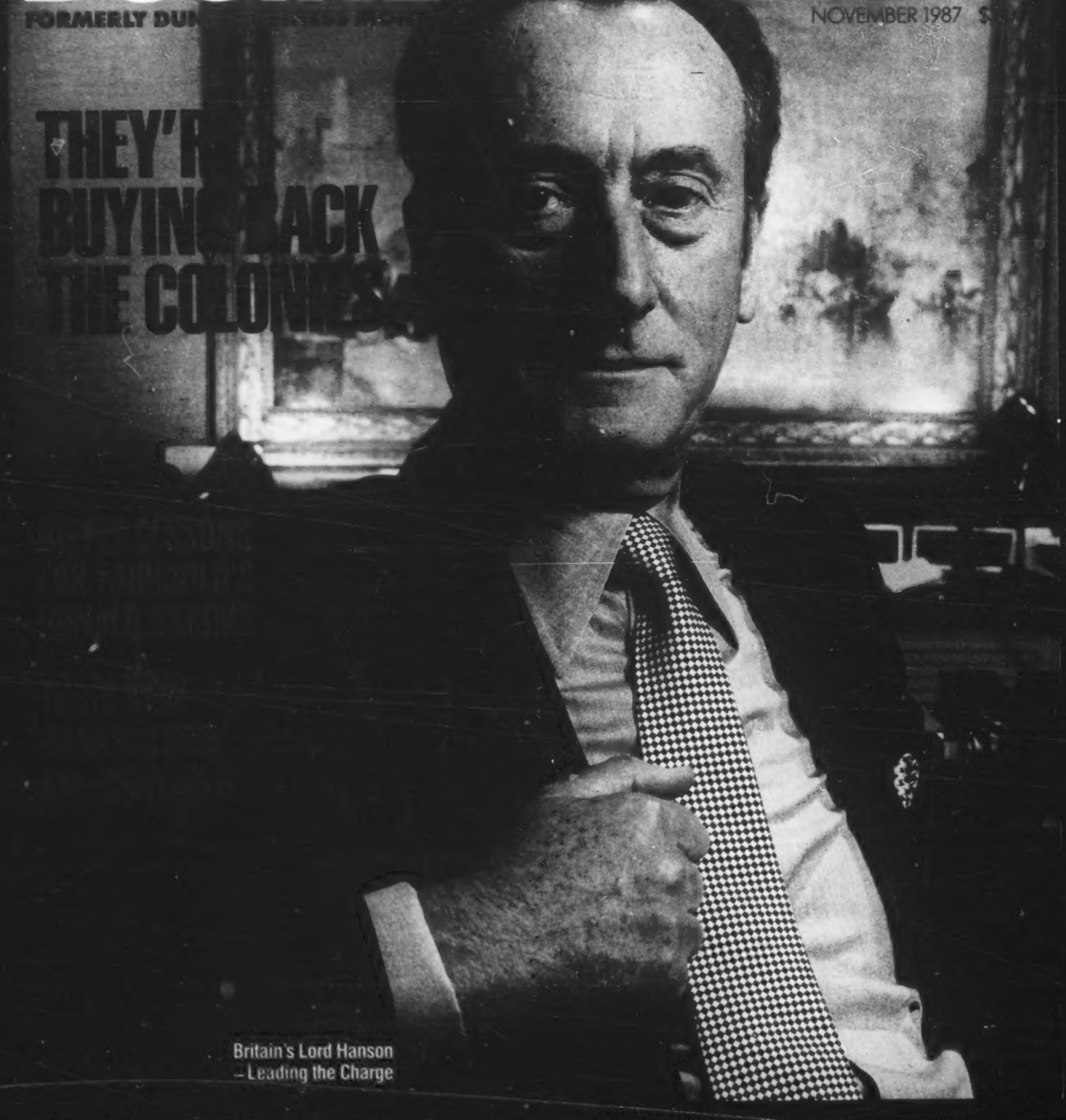

THEY'R BUYING BACK THE COLONIES

Britain's Lord Hanson
– Leading the Charge

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BRITAIN BUYS BACK THE COLONIES

By one estimate, 250 U.S. firms will be taken over this year alone at a cost of $30 billion. Cheeky.

BY FRANK GRAY

British business, the longtime weak sister of the industrial world, is kicking up its heels. Spurred by a growing economy, burgeoning profits and a strong pound, British firms will take over hundreds of U.S. companies this year. Says Andrew Sentance, an economist with the 3,000-member Confederation of British Industry: "British companies stand to gain all around by expanding their international base. America, the world's largest marketplace, is the logical place to do it."

It is generally agreed that the pro-business policies of Prime Minister Margaret Thatcher's Conservative government, first elected in 1979 and reelected resoundingly for the third time last June, have sparked the new drive for U.S. acquisitions. Although the Tories have tightened company tax breaks, they have progressively reduced the corporate tax rate to the current 35 percent from 50 percent in early 1984. Moreover, with inflation at a modest 4 percent and the economy growing at the same healthy rate, corporate profits will be up an impressive 15 percent this year, on top of a similar increase in 1986. So companies are awash in cash for acquisitions. "We expect 250 takeovers of U.S. firms this year with a value of more than $30 billion," says Philip Healey, Editor of *Acquisitions Monthly*, which monitors takeovers in the U.K.

LORD HANSON

HARD-NOSED YORKSHIREMAN

James Edward Hanson, 65, has long had a reputation as both a playboy and a ruthless manager adept at turning flagging companies into vibrant profit centers.

Engaged to actress Audrey Hepburn in 1954, the Yorkshireman's gossip-column image has receded with age and his 28-year marriage to American Geraldine Kaelin. But his reputation as a hard-nosed businessman is still very much with him.

Hanson inherited a family trucking business, which was nationalized by the Labour government in 1947 to the tune of £3 million. He used this stake to create Hanson Trust in 1950 and took the company public in 1964. Until the recent Kidde deal, his biggest move was the £2.6 billion ($4.2 billion) takeover of the huge Imperial tobacco group in 1986.

A staunch Conservative, Hanson nevertheless won a knighthood from a Labour government in 1976. He was made a lord by the Conservatives in 1983.

The Bank of England says it is not worried by the huge capital outflows, particularly since much of the additional capital needed to finance foreign ventures is raised abroad. A case in point: the $5 billion needed to finance British Petroleum Co. plc's mammoth $7.4 billion bid last March for the 45 percent it did not already own of Standard Oil Co., the biggest British acquisition ever done in the U.S. With Morgan Guaranty Trust Co. of New York taking the lead, 64 commercial banks rushed to provide the funds for the deal. In fact, the banks were so anxious for a piece of the action that they offered BP far in excess of what it needed, says Chairman Sir Peter Walters.

If the BP deal jolted normally phlegmatic City of London institutions, they have been left virtually breathless by the sheer volume, size and range of other deals put together this year *(table, page 26)*. Scarcely a major sector of the economy has been left untouched.

Lord James Hanson's giant Hanson Trust plc conglomerate, one of Britain's top ten companies with annual sales last year of £4.3 billion ($7 billion), gobbled up fellow conglomerate Kidde Inc. of New Jersey in a cleverly maneuvered $1.7 billion deal last summer. Imperial Chemical Industries, under Chairman Denys Henderson, paid the same for Stauffer Chemi-

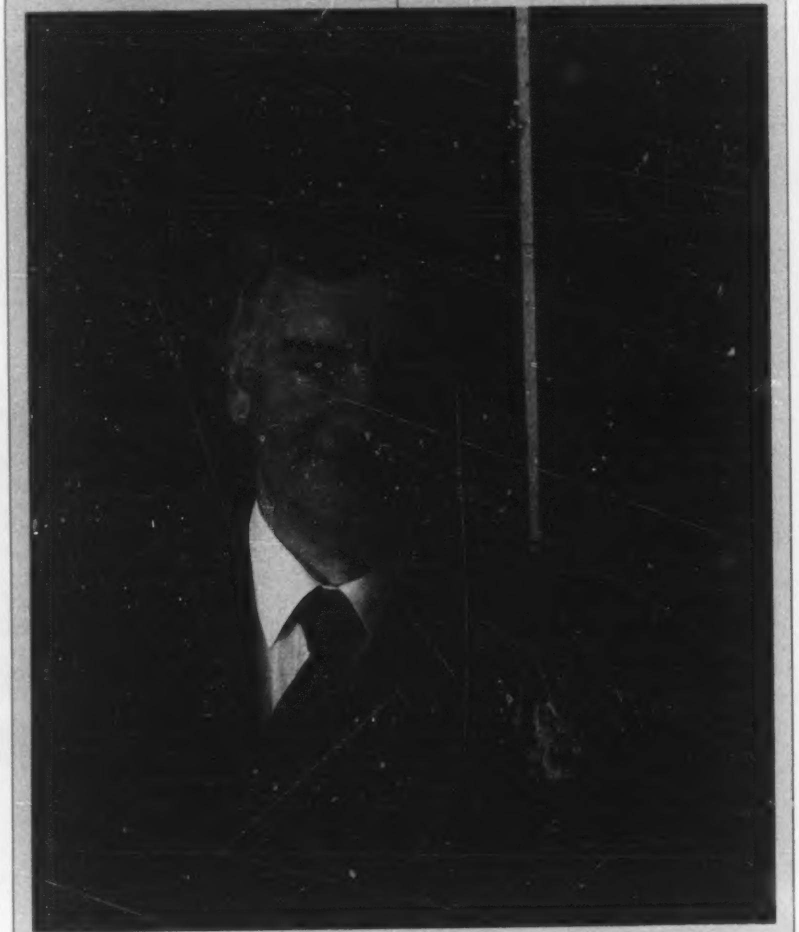
ILLUSTRATION BY DAN KIRK

ALLEN SHEPPARD

UP FROM THE SLUMS

Brought up in London's East End slums, the son and brother of railway men, Allen Sheppard, 55, joined Ford Motor Co. after working his way through the London School of Economics. A man with no hobbies but work, he held a variety of sales jobs at Ford. He then joined the Roots car company and subsequently jumped to British Leyland Motor Corp. He enjoys his reputation as a tough manager and says he "prefers to rule with a light grip on the throat."

Sheppard's sales background caught the attention of the Grand Metropolitan Group; he was hired by its brewing division in 1975. In 1980 Sheppard took charge of all the company's beer, leisure and hotel interests and was named chairman this year. Once asked what company he would like to head, he replied, "British rail—it's a family concern."



cals. The latter was spun off by Michael Angus' Anglo-Dutch Unilever plc, which acquired it as part of its $3.1 billion ingestion-at-one-gulp of Chesebrough-Ponds at the beginning of the year.

Some other deals, as the British like to put it, have been downright cheeky because they involve companies that are American institutions.

In one, the F.H. Tompkins plc engineering group, led by Greg Hutchings, a former takeover specialist with Lord Hanson, snapped up Smith & Wesson of handgun fame from Lear Siegler Holdings for $112 million. Says Hutchings: "This is not to say that we are going into the Saturday-night special business, you know. These guns sell for $200-to-$300 apiece."

In another, Martin Sorrell took a cue from his former bosses at Saatchi & Saatchi Co. plc, where he was finance director, by snaring U.S. advertising giant J. Walter Thompson for his WPP Group Ltd., a fast-growing marketing services company once renowned for its shopping carts. The $566 million acquisition may prove a mixed blessing, since J. Walter Thompson lost its lucrative Burger King account just as the deal was being wrapped up in late September.

Perhaps the most colorful deals involve Britain's fast-expanding hotel and liquor industry. In the space of ten dramatic days in September, nearly $1.5 billion changed hands when the U.K. replaced the U.S. as the world's premier owner and operator of quality hotels.

The Ladbroke Group plc, known more for gambling, real estate and retailing than for hotels, swept down on Allegis Corp., owners of United Airlines, to swallow Hilton International after Allegis accepted its take-it-or-leave-it offer of $1.07 billion. Through his Manhattan-based London & Leeds Corp. and—with the help of a £254 million ($414 million) rights issue in London—Ladbroke Chairman Cyril Stein took the play away, or so he thought, from Bass plc, the brewing giant also interested in acquiring Hilton.

Within days of Stein's triumph, Bass Managing Director Ian Prosser staged a coup of his own: the $475 million acquisition of the international network of Holiday Inns from US Holiday Corp. Says Prosser: "Of course we wanted Hilton, but we feel we have a good deal with Holiday Inns, which enables us to expand our hotel business considerably."

"Expand considerably" is Britsh understatement. Bass takes over thirteen U.S. hotels and 135 foreign Holiday Inns, and it will develop another 25 jointly with the Holiday Corp. Ladbroke's move gives it 91 hotels worldwide with another sixteen under development to add to its own small stable of quality hotels in Britain. Says John Spicer, industry analyst for Kleinwort Grieveson Securities Ltd.: "Only time will tell if they are good deals. Foreign holdings are harder to control. In the case of Bass, it will likely be in the 1990s before we see any big boost in the company's profits."

These deals come on top of the 100 InterContinental Hotels taken over by Grand Metropolitan plc from Pan American World Airways for $500 million in 1981 and the 786 hotels—including the

THE BOOM IN BRITISH BUYOUTS

YEAR	NUMBER	VALUE (in billions)
1984	142	$ 3.9
1985	160	5.2
1986	229	13.9
1987	250*	30.0

Source: J.P. Mervis & Co. *Projected

PHOTOGRAPH BY RIC GEMMEL

US TraveLodge chain—owned worldwide by the unassailed U.K. leader, Trusthouse Forte plc, still run by Lord Charles Forte, the 79-year-old Italian immigrant who was once an ice cream vendor in Piccadilly Circus.

Virtually all the bidders agree that the renewed strength of the pound against the dollar has spurred their acquisition fever. Sterling has been reasonably stable at around $1.60-to-$1.65 in relation to the dollar for six months, a far cry from its all-time low of $1.05 in late 1984.

The firm pound helped persuade Grand Met to buy Heublein, the liquor unit of RJR/Nabisco, for $1.2 billion in cash earlier this year. Referring to the sterling-dollar relationship, Group Chief Executive Allen Sheppard says the takeover bid "would have been a different proposition several years ago."

However, it will take quite a few years before a discernible return is derived from Heublein, which was bought for top dollar. Says Sheppard, who now has control of Smirnoff vodka, which, after Bacardi rum, is the world's most popular alcoholic drink: "Of course we paid a top price, but it is a top-quality product. We wanted it and were prepared to pay for it. It fits our company profile better than Nabisco's."

By the same token, Anthony Tennant, new chief executive of the giant Guinness plc brewing and distilling group, paid $480 million in September to acquire Schenley Industries. It is a deal that probably would have been structured differently had not his predecessor, Ernest Saunders, sold the U.S. distribution of top-selling Dewar's White Label whisky to Schenley proprietor Meshulam Riklis as part of his controversial and successful bid to take over the Distillers Co. plc last year. Saunders was dismissed from Guinness earlier this year because of the insider trading and share manipulation in the deal, which involved disgraced arbitrageur Ivan Boesky.

Tennant admits he was fulfilling a pact with the company's shareholders to erase the Saunders mess and avoid lengthy litigation required in reclaiming Dewar's. "The move puts the stamp of authority on Tennant's stewardship of Guinness," says an aide.

Lord Hanson, on the other hand, is giving every indication he will move quickly to maximize returns on his Kidde investment. The 65-year-old chairman, hand in hand with Sir Gordon White, chairman of Hanson Industries in the U.S., closed in on Fred Sullivan's Kidde group in August with a combination of stealth and good fortune. Hanson quietly acquired a small, strategic stake in Kidde. Sullivan, sensing his company was being stalked but not realizing it was Hanson, responded by approaching Hanson for a friendly takeover.

TONY BERRY

"I'M NOT CLEVER"

Tony Berry, 47, is one of the brightest stars of British business. Starting as a management trainee with Guinness, he became chief accountant of the Bovril food products company in 1969, and a year later, at age 30, was made finance director of Brengreen holdings, a waste disposal company. Says Berry: "I'm not clever, but I have an ability to make people believe in my ideas."

In 1982, Berry set up a management consulting firm and just a year later bought a 55 percent stake in the Barnet employment agency, later to become his own Blue Arrow company. In a year he turned Barnet's £130,000 ($212,000) annual loss into a profit of £211,000 ($344,000). An avid sports fan, he owns 5 percent of Tottenham Hotspur, a football team, and has pledged £10 million ($16 million) to sponsor Britain's next entry in the America's Cup race.

Sir Gordon, 65, now has teams examining Kidde's assets, which include Tommy Armour golf clubs, Jacuzzi whirlpool baths and Farberware kitchenware among its more than 100 subsidiaries. Fiona Parrot-Humphrey, an analyst for Robert Fleming Merchant Bank, sees belt-tightening and asset disposals starting in November. Says Parrot-Humphrey: "If anyone can find diamonds in Kidde, it is Lord Hanson."

The audacity of some deals is reflected in the record number of rights issues (allowing existing stockholders to buy more shares of a company) being arranged by the City. Through October, a total of £8.8 billion ($14.3 billion) has been raised through 180 rights issues, many to help leverage foreign takeovers. This compares with 184 issues in 1986 worth £5.6 billion ($9.1 billion).

One of the largest this year was an £837 million ($1.4 billion) issue managed by

PHOTOGRAPH BY RIC GEMMEL

SIR PETER WALTERS

MAN OF SIMPLE TASTES

A lifelong oilman who joined British Petroleum in 1954 after military service, Sir Peter Walters, 56, says the one thing he learned in the army was to write a concise memo. He has been closely associated with BP's international operations, rising to managing director in 1973, deputy chairman in 1980 and chairman in 1981.

The son of a Birmingham police inspector, Walters is a man of simple tastes who buys his suits off the rack at the popularly priced Marks & Spencer stores. Under his leadership, BP launched a ten-year restructuring program, the centerpiece of which is this year's $7.4 billion acquisition of the 45 percent it did not already own in Standard Oil of Ohio. Currently Walters is overseeing the sale of the government's £7.5 billion ($12.2 billion) stake in BP, a key part of the Thatcher government's privatization program.

County NatWest Ltd., the merchant bank division of NatWest Investment Bank Ltd., supporting the daring $1.2 billion takeover of Manpower, Inc., the U.S.-based international employment organization, by the fledgling Blue Arrow employment group. Blue Arrow, itself only formed in the early 1980s by young entrepreneur Tony Berry, rang up sales last year of £97 million ($158 million), which County Bank NatWest forecasts will grow to £240 million ($391 million) this year. However, this is still a pittance compared with Manpower's estimated $1.2 billion 1987 revenues.

It is a case of the mouse swallowing the cat and, not surprisingly, there have been digestion problems. Only 49 percent of the issue was bought by shareholders; the balance had to be placed on the London Stock Exchange by brokers Phillips & Drew. The Blue Arrow situation indicates that not all proposals end in happy marriages, and some do not come off at all.

The classic British horror story in the U.S. concerns Midland Bank plc's five-year ownership (1981–86) of the Crocker Bank of California, which eventually cost it $1.1 billion. The arrangement foundered from the start due to Crocker's extensive high-risk loan exposure both in the U.S. and in Latin America.

Midland Chairman Sir Donald Barron bit the bullet last year before his retirement and sold Crocker to Wells Fargo Bank of California for $1.07 billion. In effect, the bank lost about 25 percent of its investment, due to the inflation that had taken place since 1981. It ended finally in Britain's largest ever "golden handshake," a £3.9 million ($6.3 million) settlement with former Crocker executive Frank Cahouet, who helped conclude the Wells Fargo deal.

Publishing tycoon Robert Maxwell, owner of the popular *London Daily Mirror* (circulation 3.1 million), also came a cropper in his efforts to enter big-time publishing in the U.S. Last spring he sought to beef up the U.S. holdings of his British Printing & Communication Corp. with a bold, unfriendly $2-billion bid for U.S. book-publishing giant Harcourt Brace Jovanovich. A wave of BPCC acquisitions

ANTHONY TENNANT

AN ALOOF PATRICIAN

Anthony Tennant, 57, was named chairman of Guinness in March 1987 while the company was still reeling from insider trading scandals.

A graduate of Eton and Cambridge and the son of a wealthy Scottish family, Tennant has a reputation as an aloof patrician. Still, he has wasted no time putting his stamp on the problem-ridden Guinness, getting rid of noncore subsidiaries and broadening its international base with the recent takeover of Schenley.

A connoisseur of fine wines and the owner of expensive racehorses, Tennant previously was deputy chief executive of Grand Metropolitan Group, where he took over its liquor division and pushed profits from £10 million ($16.5 million) to £150 million ($244 million) in ten years. He joined Guinness after losing the top spot at Grand Met to Allen Sheppard.

PHOTOGRAPH BY IAN BRADSHAW

last year in the U.S. and Canada of satellite communications, printing operations and newsprint companies was the first stage of a game plan to make the U.S. the linchpin of Maxwell's international publishing empire.

Those takeovers will double BPCC's overall revenues by the end of this year to £1 billion ($1.6 billion). Maxwell's goal is to make BPCC a big-league communications company with £3 billion-to-£5 billion ($5 billion-to-$8 billion) in revenues by 1990.

But HBJ Chairman William Jovanovich refused to play. He rejected Maxwell's bid out of hand, citing the Czech-born entrepreneur's close, and according to Jovanovich, "unsavory" ties with Eastern European political leaders. Maxwell, a former Labour Party MP, responded with a £630 million ($1 billion) rights issue to back up his bid, but Jovanovich's withering personal attacks and a $3 billion recapitalization of HBJ forced the British businessman to withdraw from the fray.

Still another failure was the attempt by the Plessey Co. plc, the British electronics group, to take over the $2.1 billion Florida-based Harris Corp. The bid was nipped in the bud by an outright rejection by the Pentagon, due to Harris' top-secret defense contracts.

Undeterred, Plessey competitor Ferranti plc has launched a merger proposal with the International Signal & Control Co., another defense contractor, to create a new Anglo-U.S. company. Says Sean Kennedy, a Ferranti spokesman: "We have complementary defense system contracts both in the U.S. and in Europe. The Defense Department has given us the nod and we are working on the merger now." The new company will have annual sales of £1.2 billion ($2 billion).

MAJOR U.S. ACQUISITIONS BY U.K. COMPANIES, 1987

TARGET	INDUSTRY	ACQUIRER	PRICE (in millions)
Standard Oil (45%)	Oil	BP	$7,600
Kidde	Conglomerate	Hanson	1,700
Stauffer Chemicals	Agrichemicals	ICI	1,690
Manpower	Employment	Blue Arrow	1,300
Heublein	Drinks	Grand Metropolitan	1,200
Hilton	Hotels	Ladbroke	1,070
First Jersey National	Banking	National Westminster	820
ADT	Security	Hawley	715
Rent-a-Center	Electronics	Thorn EMI	595
Revlon (Visioncare)	Eye Care	Pilkington	574

Source: Acquisitions Monthly

Midland's unhappy experience with Crocker has made British banks wary of any major move into the U.S., a caution heightened by the U.K.'s own extensive loan exposure in Latin America and Africa.

Nevertheless, Tom Frost, the recently appointed chief executive of Britain's largest bank, National Westminster Bank plc, has used his own experience as chief of National Westminster's New York bank in the 1970s to push through an $820 million bid for the First Jersey National Corp. last July. First Jersey has no outstanding loans in the developing countries, and the easing of U.S. interstate banking regulations will give NatWest a foothold in the highly lucrative Northeast market. Says Frost: "We looked at the Midland experience closely but saw little parallel between their Crocker deal and our move on First Jersey."

Robert Law, banking analyst with brokers Kitcat & Aitken, says that the emergence of a regional banking system in the U.S. should have other British banks following in NatWest's footsteps, "just as long as they do their homework on a bank's loan exposure."

Few experts in the City believe U.K. companies will be able to repeat this year's record spending spree in the U.S. next year. Still, British Overseas Trade Board Chairman Sir James Cleminson sees "a steady pattern of investment emerging between our two countries. The U.S. is, after all, our largest single trade partner." Adds Sir Gordon White of Hanson Industries: "We liquidated many of our U.S. assets in the First and Second World War; now we are building them up again. As for Hanson's activities, we want to be in countries where they speak English—and that means in the U.S. above all."

It works the other way, too, says Giles Shaw, Britain's industry minister. U.S. investment in Britain is now worth $34 billion and represents 41.4 percent of total U.S. investment in the European Community. Sums up a British banker: "It was George Bernard Shaw who said that the U.S. and Britain were two nations divided by a common language. That's not true anymore; they are united and the common language is money." ■

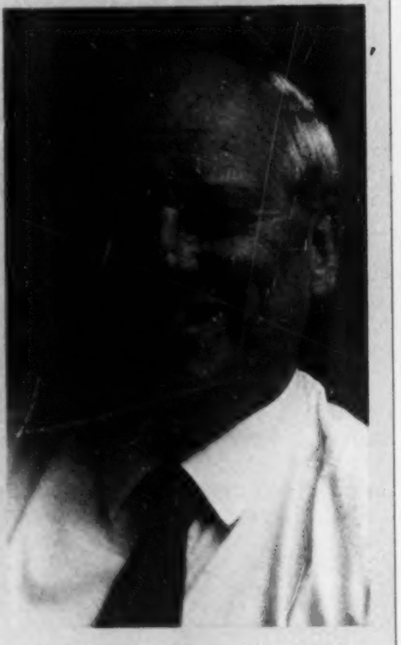
DENYS HENDERSON

"A GODDAMN PEDDLER"

Born in Ceylon (Sri Lanka), Denys Henderson, 55, is the son of a Scottish tea planter. Trained as a lawyer, he joined Imperial Chemical Industry's legal department in 1967. He took over ICI's agrichemicals division in 1974, was appointed general manager in 1977 and a director in 1980.

A restless man who is always bursting with energy, Henderson finds it difficult to sit in one place for very long. He became ICI's youngest chairman in its sixty-year history when he succeeded Sir John Harvey-Jones earlier this year.

To play up ICI's multinational interests, Henderson chaired ICI's first board meeting outside the U.K., which took place in New York in June. Constantly selling his ideas to all levels of the company's management, he characterizes himself as just "a goddamn peddler."



PHOTOGRAPH BY IAN BRADSHAW

RIPPLE EFFECTS OF MISSILE ACCORD

Sure, a Reagan-Gorbachev pact is good for humanity, but there are serious business questions at play, too.

BY EDWARD M. MERVOSH

The U.S.-Soviet agreement to eliminate short- and medium-range missiles in Europe, to be signed by President Reagan and Prime Minister Gorbachev this year, may or may not bring about a more peaceful world. But one thing is almost certain: by forcing a reappraisal of NATO military strategies, the treaty will intensify the struggle among the armed services and on Capitol Hill over how to allocate defense outlays, which could reach $300 billion in 1988. It is also likely to increase pressure on U.S. allies to take on more of the defense burden.

These struggles will have major repercussions for the 2,000-to-3,000 companies that make everything from strategic bombers to rifle parts. "The defense industry environment will be changing dramatically," says L. Douglas Lee, vice president and defense expert at the Washington Analysis Corp. "Demand for new products will be emerging, the business will become even more competitive, and that means defense companies can no longer be complacent as they have been in the past when business was more assured."

Although the treaty has been heavily criticized—by NATO General Bernard Rogers, NATO allies like Germany, conservative groups like the Heritage Foundation and a small, powerful group of Republicans and Democrats—the odds are low that it will run into serious flack in Congress when it comes up for a vote early next year. Anything that reduces the horrifying prospect of nuclear war has broad public support. "I think it's a done deal," says Representative Les Aspin of Colorado, chairman of the House Armed Services Committee and one of the treaty's most outspoken critics.

But the tactical, strategic and spending implications of the INF treaty are likely to become the targets of intense discussion as early as next spring when Congress begins putting together the fiscal 1989 defense budget. Big questions are likely to arise over how much the U.S. should be spending on defense and on what kinds of weapons. The debate will focus primarily on whether the country should spend less on nuclear weapons and more on conventional arms such as helicopters, tanks and personnel carriers.

The treaty itself will have little direct impact on either the composition or the total amount of defense spending. Since 1983, the U.S. has deployed in NATO countries some 256 cruise and 108 Pershing II missiles armed with nuclear warheads at a cost of about $9 billion. But those missile-building programs have been largely completed, and since it doesn't cost much to maintain the missiles, there is little to be saved there. Removing and returning them to the U.S. will also cost very little. "We're not stopping production of anything, and we'll be removing those missiles slowly over the next five years, so this will be a relatively inexpensive exercise," says Paul Nisbet, a senior vice president at Prudential Bache Securities, who specializes in the defense industry.

BIG NAMES IN DEFENSE

From 1984 through 1986, the following ten companies received nearly half of the $321 billion in contracts let by the Defense Department. Here's who got what (in billions):

McDonnell Douglas	$23.1
General Dynamics	21.4
Rockwell	18.1
General Electric	17.3
Lockheed	15.0
General Motors/Hughes	14.5
Boeing	13.6
United Technologies	10.7
Raytheon	10.1
Grumman	8.1

Source: Washington Analysis Corp.

Still, the INF treaty is likely to generate demands for other types of military spending. Defense experts widely agree that for the INF treaty or any subsequent nuclear disarmament treaty to work, the U.S. and the Soviet Union will have to keep a close eye on each other. That means the U.S. will have to build up its surveillance capability, primarily by putting more—and more sophisticated—spy satellites into space. This could be a boon to such aerospace giants as Hughes Aircraft and TRW, which specialize in such equipment.

And with the space shuttle in limbo, most of this payload would probably have to be lifted with one-shot missiles of the type manufactured by Martin Marietta, McDonnell-Douglas and General Dynamics. These companies say they would also like to perform the launches on a contract basis, a job that in the past has been done by NASA. They already have orders to put more than forty commercial satellites into space by the 1990s. "Ironically, the INF treaty could end up as fatter order books for these missile makers," says defense analyst Peter Aseritus of Smith Barney, Harris Upham.

Expanding U.S. surveillance capability

would also boost demand for ground communications equipment—receivers, transmitters and the like—to collect information from the satellites. And it would increase the need for computers to process the data. That could mean more business for companies such as Raytheon and Texas Instruments, which manufacture communication earth terminals, and for computer makers, especially Sperry Rand and Honeywell, the biggest providers of computers to the military. Expanding military surveillance could be a godsend to semiconductor manufacturers such as RCA, Intel and Motorola, which are facing intense foreign competition.

When the smoke clears around the INF treaty, however, the biggest bucks could go to manufacturers of conventional weapons like airplanes, tanks, machine guns and artillery. Up to now, the U.S. and its NATO allies have accepted the Warsaw Pact's superiority in numbers of conventional weapons *(table, page 56)* because of the West's strong nuclear deterrent. But with a dismantling of NATO missiles, achieving parity in nonnuclear arms is apt to become a high American priority.

Closing the gap would be expensive. A study by the House Armed Services Committee concluded that the Soviet Union and Warsaw Pact countries have a 2.5-to-1 advantage in conventional weapons. "Growing awareness of this imbalance will trigger a hot debate in Congress over how much to spend on strategic weapons and how much to spend on tactical weapons," Aspin says.

Indeed, given the recent sentiment in Congress, the big issue is likely to be not whether to spend more on conventional arms, but how much more. Last year, when an INF treaty was still just a glimmer in President Reagan's eye, Congress passed the Balanced Technology Initiative and the Conventional Defense Initiative, which set aside about $600 million in research and development money to be spent only for non-nuclear weapons. Now, with the INF treaty a reality, the political pressure for more conventional weapons is certain to mount.

Actually, there would be little debate over nuclear versus conventional weapons if there were enough money for both. But defense spending started to slow sharply in 1985, and in real dollars it is expected to grow very little if at all in the next three years. In the new era of budget restraint, neither the public nor Congress is ready to spend easily. Revelations of the General Dynamics scandal and other reports of waste in the defense industry have also cooled the ardor for defense.

The INF treaty could make it even tougher to boost defense spending in coming years. "Reducing nuclear devices as the INF treaty does will make people feel good about the prospect for a more peaceful world," says Washington Analysis' Lee. "That won't make selling the idea of spending a lot more on defense to the public or Congress very easy."

As defense analysts see it, neither the public nor Congress will cotton to the fact that it takes a lot more money to match the Soviets and its allies in conventional weapons than in nuclear ones; the fact is, nuclear weapons give far more bang for the buck. The House Armed Services Committee has concluded that to achieve balance in conventional firepower, the U.S. and its NATO allies would have to add ten armored divisions at a one-time cost of $75 billion. In addition, it would cost $20 billion a year to maintain those divisions.

Assuming a lid on defense spending, that money would have to come out of other programs. How the money got shifted around within the budget could, of course, would mean billions of dollars in business to be lost or gained by arms makers.

Many conventional arms proponents want to get money for the buildup by scaling back on the President's Strategic Defense Initiative, better known as Star Wars. Representative William L. Dickinson of Alabama, the ranking Republican on the Armed Services Committee, has sharply criticized the Pentagon's proposed spending hikes for Star Wars—up 61 percent to $5.8 billion in fiscal 1988. "There is no way that such funding can or should be approved when it is requested at the expense of needed conventional capabilities," Dickinson said in a letter to Defense Secretary Caspar Weinberger last December.

One idea is that the Defense Department beef up land-based forces by abandoning two proposed nuclear-powered aircraft carriers, which would cost $7 billion

HOW CEOS VIEW THE ARMS DEAL

Dwayne O. Andreas—Archer-Daniels-Midland Co.:
My reaction is favorable, with my fingers crossed. This could be the first of a series of Superpower agreements on a variety of topics. It should lead to a friendlier attitude between the two governments and help eliminate businesspeople's inhibitions about doing business with the Soviet Union.

John R. Hall—Ashland Oil, Inc.:
It is a major breakthrough in Superpower relations. While the agreement itself would only dent the current American and Soviet nuclear arsenals, it could lead to more discussions on topics ranging from arms control to trade.

John C. Bierwirth—Grumman Corp.:
I hope it will create an atmosphere of approval and give the Soviets the willingness to take the second step: a substantial reduction in intercontinental ballistic missiles. But to truly relieve anxiety in Europe, the Soviets must reduce the size of their tank forces. It's the Soviet tank divisions that have been so threatening to the Europeans.

How does this affect Grumman? Actually, this tends to increase the importance of the tactical weapons such as the F-14 fighter and the A-6 strike bomber that we produce. As nuclear weapons are phased out, the conventional arms become more, rather than less, important.

Anthony J.A. Bryan—Copperweld Corp.:
One has to have a positive reaction to anything that reduces tension between the two countries. But the short-term effect will be that we will have to rely more on conventional arms, which is a more expensive way to defend ourselves. What we need to do to reduce tensions is take down all forces in equal measure on both sides.

John W. Teets—Greyhound Corp.:
We have to be cautious with the Russians and make sure we have safeguards in place to insure compliance. The goal of the Russian and American people is the same: peace and relief of tensions. But you are dealing with governments, and getting them to trust each other can be a problem. Still, I think there is a need for this agreement. And certainly this expands the opportunities for businesspeople to work there.

Edson W. Spence—Honeywell Inc.:
This is an important milestone in U.S.-U.S.S.R. relations. Assuming the agreement is ratified by the Senate, it should open the way to further nuclear arms reduction over the next decade. At the same time, the INF deal puts a heavy burden on the NATO countries to be sure there is a parity in conventional arms.

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SPECIAL REPORT:

WHAT 609
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ARE THINKING

John Kenneth Galbraith
Ben J. Wattenberg
Walt W. Rostow
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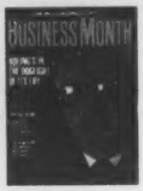

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THEIR DEEPEST CONCERNS

More than 600 chief executives gave their views on politics, competition, takeovers, cutbacks, weaknesses, strengths, the future, the past and a great deal more.

BY BEN J. WATTENBERG

You don't hear much about "industrial policy" these days.

Today's buzzword is *competitiveness*. And while the word is as vague and fuzzy as *industrial policy* and other earlier cure-all words, there is an important distinction. The key player in the competitiveness chase, unlike earlier concepts, is not the government, nor economists, nor planners. It is the businessman. We are told that it is the chief executive officer—dynamic and driven—who must innovate, streamline, "down-size," upgrade and stave off foreign meanies. He'd better do it, we are informed, lest we turn into a service economy with everyone flipping hamburgers for everyone else, an economy where our children will be worse off than we are.

Will the chief executive be our savior? I don't know. Still, this much should be said: If business needs reform, it's likely that chief executives are going to have to do the job. And, if the reform is happening, we ought to know how goes the battle.

That's why the Business Month report "Insight—The American CEO," presented in these pages, is so important. It is the most comprehensive survey of chief executives of large American corporations ever taken. The marketing-research firm of Yankelovich Clancy Shulman interviewed 609 chief executives in person, typically for about an hour. (For the survey's methodology, see page 29.) Luckily, the interviewers were in the field from late September 1987 to early November, almost perfectly straddling the stock-market earthquake of October 19, and allowing us to see any attitudinal shifts that took place.

The survey covered the major issues facing chief executives: general business and political concerns; their choices for President in 1988; their worries about conditions in the work place, their successors and their children. Here are some of the most dramatic findings:

Three of their own firing-line problems come from our own government and system.

☐ The number-one threat to American business, spontaneously mentioned by 35 percent, is foreign competition. (In an unaided question, typically, any response above 15 percent to 20 percent is high.)

☐ American companies are too short-term oriented, according to 89 percent.

☐ About half believe we should raise taxes to cut the budget deficit.

☐ While 40 percent expect George Bush to be elected President in 1988, they would prefer Robert Dole to Bush.

☐ More than two out of five (41 percent) think it is inevitable that the United States will have a service economy.

☐ Almost 90 percent think that criticism of business ethics is at least somewhat justified.

☐ More than 50 percent expect AIDS to be a serious problem in the work place in the next two to three years.

As important as—perhaps more important than—the individual findings is the insight the survey provides into the chief executives' state of mind regarding their current situation. They are upbeat. They agree on why American business has been losing the competitiveness struggle. They know what they must do about it. They've already started. They know what help they need from the government. They believe they will prevail.

The battle ahead will not be easy: What they see is stress and success.

To understand survey research, there is one good general rule to follow: Separate what people think about issues they personally know about from what people think about issues they don't know much

WHAT THEY'RE THINKING

SHORT-TERM PLANNING

■ "Japan is kicking our butts. They don't have to worry about the immediate. We ought to sacrifice some of today's profits for tomorrow's profitability."

■ "American businesses—public corporations especially—have become myopic about quarterly results under extreme pressure from investors. They can't think long-term for fear of the economic impact on their business."

■ "Our plants are worn out; the auto industry is a classic example and the textile industry another. We are after the current dollar and do not pour it back into our businesses as we should. Our plants are vastly inferior to many of our foreign competitors'."

LONG-TERM PLANNING

■ "It would be better if companies were to report their earnings only once a year. Otherwise, I don't think anything can be done."

■ "Management rewards should be based on long-term success."

■ "We threw away the people who built our industries and replaced them with MBAs from Harvard. Industry is shortsighted in paying MBAs more than engineers. The greatest shortage in America today is in manufacturing people."

■ "I would have a very high tax on trading stocks in under three years and give tax breaks for R&D."

■ "Don't tie executive compensation to the performance of stock and corporate earnings."

ACCOMPLISHMENTS

■ "I've turned staff morale around 180 degrees to a high point. People now like what they are doing and feel like winners."

■ "I've managed this company through a merger, kept it together and kept morale up."

■ "I took the company private in a leveraged buy-out and, when the market changed, I changed the product mix and kept sales and profits up and increasing."

■ "I've increased the size of the company fourfold."

about. For example, most Americans think our schools are a big problem, but an almost equally large number think that schools in their own neighborhoods are just fine. The statistic registering disapproval is politically very important—even though it is reporting a perception of a situation these people know about secondhand. But if you want to assay how our schools are doing neighborhood by neighborhood, firsthand estimation, the other datum, which yields a good fix on reality, is much more relevant. While both reality and perception influence the way people act, in my opinion firsthand observations are usually more informative than secondhand views.

Nowhere is the difference between firsthand and secondhand more relevant than in interpreting the chief executives' appraisals of the challenges and the future of "American business" on the one hand versus the challenges and the future of "your company" on the other. It's not that the chief executives don't know business, it's simply that they know a damn sight more about their own companies. And if we're looking for reality, it is the sum of those views about their own companies that makes up a large part of the totality of American business. Economists take note.

For example, American chief executives are mildly confident about that amorphous entity "American business." When asked, "How would you describe your overall confidence in American business being able to meet the challenges it faces?" (on a scale of one to six with six as "extremely confident" and one as "no confidence at all"), barely more than half (51 percent) rated their confidence at five or six—a "most confident" response, according to Yankelovich Clancy Shulman.

But what happens when the focus tightens and the same question is asked not about American business, but about "your company"? Eighty percent voted "most confident." Quite a shift. The optimists go up by three-fifths. Thus: About their own companies, a subject that CEOs know more about than anyone else—more than economists, more than the chairman of the Fed—they are bullish indeed.

A similar "American business" versus "my company" split opens up over foreign competition. When asked how the United States is doing vis-à-vis foreign competition, the chief executives are gloomy. More than half (55 percent) say American business is losing ground to foreign competitors, 18 percent think it is gaining and 27 percent believe it is holding its own.

But when asked, "Is your company currently doing enough to stay competitive in world markets?" the results are different. Half say yes, 20 percent say no and 30 percent don't know. Down in the trenches, where the field commanders are waging the fight, where battles are won and lost, we are getting a battlefield communiqué that says things are going rather well.

And when the focus is long-range, a pretty solid optimistic consensus forms about the global business scene, even on the "American business" axis. The chief executives were asked: "In the year 2000, will American business be stronger globally?" Their response: Fifty-three percent say that it will be stronger, 29 percent think we will be weaker and 17 percent believe it will be the same.

What's the problem? Another perception-reality revelation. When given a card listing "Issues Seen As Serious Threats To American Business," the top two threats are those abstract, amorphous ogres, the "federal deficit" and the "trade deficit." CEOs rate them as the top threats, in that order, each at high levels—69 percent for federal and 63 percent for trade.

> *'They back their people 100 percent. We pull the rug out when we see temporary losses.'*

But when roughly the same question is asked, open-ended, without a list of possibilities, we find that the number-one threat is neither of the deficits. It's something chief executives have more intimate knowledge of: "foreign competition."

When asked about the most serious threats to "your company," the federal deficit returns to first place, with 25 percent mentioning it. But the next five closely bunched worries are all of a nonabstract nature: "government regulation," "economic recession," "lawsuits," "foreign competition" and "U.S. tax policy." These are the day-to-day *external* problems that are seen, by chief executives, to afflict chief executives. These are not theoretical concerns; they are plagues that seem personally visited upon chief executive officers by persons, nations and conditions out to get them and their companies—namely regulators, tax men, foreigners, even the business cycle itself.

Note that three of their own firing-line problems come from our own government and our own system: regulation, lawsuits and tax policy. That's an important find-

Ben J. Wattenberg, co-editor of Public Opinion *magazine, is a senior fellow at the American Enterprise Institute.*

ing seven years after the advent of an administration that was designed to stop that sort of stuff.

A fourth worry—recession—is a perennial. Before October 19, chief executives said overwhelmingly—by 63 percent to 22 percent—that there would be no recession in calendar year 1988. But of those interviewed after October 19, 45 percent expected a recession, versus 43 percent who didn't. We shall see.

I think the fifth nonabstract concern, "foreign competition," is the single issue that suffuses almost every line in this survey. It is the root of the abstract concerns about trade and budget deficits. It is the root of the operational government/system problems cited, which make it harder for us to compete. As we shall see, it is the root of the changing role of the chief executive in this turbulent time. It is, of course, only a reformulation of the great buzzword in the sky: "competitiveness." And the survey yields some front-line views about: What we should do about it.

What? The tip-off, I think, is the resounding, near-unanimous answer to this question: "Is American business too short-term oriented?" Almost 90 percent of the chief executives (89 percent) said yes.

Chief executives see two big and two lesser ways in which this business myopia hurts. The 89 percent who believe that business is too short-term oriented were asked an open-ended question: "In what ways is this short-term orientation impacting American business?" More than half (52 percent) replied that it resulted in no long-term planning or not looking toward the future, 40 percent said it resulted in a failure to invest in research and development, 29 percent said it made them too concerned with quarterly performance and 23 percent said that it resulted in a lack of capital investment.

Who's at fault for this short-term thinking? The CEOs distribute the blame. The most common idea, as one put it: "Everyone is working for the benefit of financial analysts—short-term instead of looking ahead." Another advises: "There needs to be a diminution of involuntary takeovers and of the desires of shareholders to have immediate rewards." There are not only villains apparent, there is a role model, says one: "The Japanese system is long-term. They back their people 100 percent; we just pull the rug out when we see temporary losses."

American chief executives have some definite ideas about what to do about business' shortsightedness. Here the survey provides a fascinating glimpse into the life of the American chief executive—personal and professional. There is change in the air—some already accomplished, plenty more on the way. Viewed as a totality, it seems like a massive—and probably successful—assault on the problems we face.

HOW THE SURVEY WAS DONE

Sitting at the pinnacle of vast organizations, chief executives have unique views of the economy, business and management. Yet their private opinions about these subjects have never been charted on a scientific basis.

Toward the end of 1987, BUSINESS MONTH magazine commissioned Yankelovich Clancy Shulman to interview 600 leaders of large corporations. The object of the confidential survey was to create a profile of chief executives' attitudes about the challenges facing American business in general and their companies in particular.

Yankelovich Clancy Shulman deployed 75 interviewers, primarily retired executives and professionals, who met with corporate leaders in their offices. During hour-long discussions, conducted between September 21 and November 7, the executives were asked approximately 100 questions. About half of the interviews were completed before the October 19 stock-market crash and half afterward.

The survey sample of 609 chief executives was chosen from a list of 9,000 companies with at least $50 million in revenues. The potential sampling error is plus or minus 4 percent.

Of the 609 executives interviewed, 133 were of companies with revenues in excess of $500 million, 291 of companies with revenues between $100 million and $500 million and 185 of companies with revenues between $50 million and $100 million. Companies with more than $300 million in revenues were overweighted in the sample to offset their small number in the business population.

The sample group was also divided approximately evenly between leaders of manufacturing companies (303) and service companies (306). The firms were located all over the country, with 46 percent in the Northeast, 26 percent in the North Central region, 17 percent in the South and 11 percent in the West. Publicly held companies accounted for 56 percent of the sample, privately held for 44 percent.

BUSINESS MONTH intends to survey the same number of chief executives annually. From these ongoing studies, we expect to develop an authoritative record of evolving attitudes and opinions of chief executive officers.

When asked what activities are already receiving more time and attention than in the past, 69 percent said strategic planning, 61 percent controlling costs, 54 percent marketing and 49 percent profit growth. These same activities, in the same order, are expected to receive more time and attention over the next two years.

American chief executives got worried—and they acted. Long-term planning a problem? Spend time on it. Products not competitive? Control costs, stress marketing. Pressure from analysts and raiders? Emphasize profits. One is reminded of the classic football-coach lecture: "Fundamentals. Fundamentals. Fundamentals."

Like the football coach, the chief executive not only has to master fundamentals, but must seek to control events. There is evidence that this has happened. When asked how their ability to control the company has changed compared with five years ago, 49 percent say it has increased, 15 percent say it has decreased and 35 percent say it has stayed the same.

Like the football coach, the chief executive is in a tough game, where cold and unsentimental decisions have to be made by men who are not necessarily either. One of the toughest calls that chief executives have made in recent years has been "down-sizing." The magnitudes have been, simply put, incredible. Of our sample, 39 percent of the chief executives report scaling down their companies in the past two years. It has been most prevalent among larger companies (48 percent) and among manufacturing companies (46 percent). And it's not over: Of the chief executives of large companies that have down-sized, 50 percent say there will be more to come in the next two years.

The cutbacks created stress for them as managers. About half of the chief executives involved in down-sizing reported managerial problems: morale, firings, disruptions and retraining.

The stress was also personal. When asked about their "most stressful" business situation, many cited down-sizing. "Laying off over 100 people was very painful," said one CEO. Another explained that "Termination . . . wasn't due to the employee not being productive or his quality of work, so it was difficult."

And down-sizing created a wrenching conflict over values. The BUSINESS MONTH survey asked respondents what they regarded as the "greatest accomplishment in your job." In first place was "company growth." It is clear, from this and other responses, that growth is still the

THE QUESTIONS AND THE ANSWERS

■ **What are the biggest threats to American business?**
Foreign competition 35.5%
Federal deficit 29.6%

■ **Of a list of suggested concerns, which are the most serious threats?**
Federal deficit 68.5%
Trade deficit 62.9%
Foreign competition 55.0%
Lawsuits 42.9%
Low R&D spending 42.4%

■ **How confident are you of American business meeting its challenges?**
Extremely 8.2%
Very 42.4%
Moderately 39.2%
Somewhat 8.4%
Little 1.5%

■ **Should we raise taxes to cut the budget deficit?**
Yes 49.3%
No 50.4%

■ **If yes, what types of taxes should be raised?**
Income tax 48.7%
Corporate taxes 37.3%
Value-added tax 20.7%

■ **How is the United States doing vis-à-vis foreign competition?**
Losing 54.7%
Gaining 18.2%
Holding its own 26.6%

■ **Which industries are responding best to foreign competition?**
Computers 38.6%
Automobiles 26.8%
Aircraft 19.0%

■ **Which industries are responding worst to foreign competition?**
Automobiles 44.0%
Steel 41.1%
Consumer electronics 16.7%

■ **In the year 2000, will American business be stronger globally?**
Stronger 52.5%
Weaker 28.9%
The same 17.2%

■ **What should companies do to make themselves more competitive?**
Learn more about world markets 24.1%
Quality control 23.2%
Increase efficiency/cut costs 23.0%
Raise productivity 20.5%

■ **Should we retaliate against countries that bar U.S. goods?**
Yes 49.3%
No 44.2%

■ **Should Congress limit foreign investment in American companies?**
Yes 15.4%
No 82.9%

■ **Should companies cooperate more with foreign investors?**
Yes 45.0%
No 18.9%
Already are cooperating 32.2%

■ **Should companies work harder to learn from foreign industry?**
Yes 94.3%
No 5.7%

■ **Should the federal government do more to stimulate R&D spending?**
Yes 83.1%
No 15.6%

■ **What should the government do for R&D?**
More tax incentives 66.7%
Grants/funding for research 12.0%
Relax antitrust laws 5.4%

■ **What is the probability that a Democrat will be elected President in 1988?**
Less than a 50% chance 41.4%
50% chance 27.4%
More than a 50% chance 29.4%

■ **What are the implications of a Democratic President for business?**
Raise taxes 37.1%
Hurt business 27.8%
Spend more on social programs 23.3%

■ **Who is the most likely winner of the 1988 Presidential election?**
Bush 42.7%
Dole 23.2%
Cuomo 8.0%

■ **Who is your personal choice for President in 1988?**
Dole 31.7%
Bush 30.2%
Kemp 5.1%

■ **Can the private sector fill the gap created by cutbacks in social spending? Should Congress spend more on social programs?**
Private sector can fill the gap 27.3%
Government should spend more 16.4%
Government should spend less 45.3%

■ **Is American business too short-term oriented?**
Yes 89.2%
No 10.5%

■ **How justified is the criticism of business ethics?**
Totally justified 15.4%
Somewhat justified 74.5%
Unjustified 8.5%

■ **Have corporate raiders helped the economy?**
Hurt 54.0%
Helped 24.0%
Depends on situation 19.0%

■ **Is it right for companies to restructure to fend off unfriendly takeovers?**
Yes, it is right 26.3%
No, it is wrong 50.7%
It depends 21.8%

■ **Should Congress curb takeovers?**
Yes 44.2%
No 54.7%

■ **Has deregulation been a success?**
Yes 21.3%
No 4.3%
A mix of successes and failures 73.4%

■ **For which industries has deregulation succeeded?**
Trucking 46.8%
Airlines 45.6%
Financial services 27.6%

■ **For which industries has deregulation failed?**
Airlines 39.2%
Telephone 24.0%
Financial services 6.9%

■ **Is it inevitable that the United States will have a service economy?**
Yes 41.2%
No 55.8%

■ **Can the United States flourish as a service economy?**
Yes 33.5%
No 63.4%

■ **In the next three years, will the power of labor unions increase?**
Increase 10.0%
Decrease 51.2%
Remain the same 38.4%

■ **Which activities are getting more time in your company than they did in the past?**
Strategic planning 69.3%
Cost control 60.6%
Marketing 54.0%

■ **Which activities will require more time in the next two years?**
Strategic planning 47.9%
Cost control 38.6%
Marketing 36.9%

■ **Are you more in control of your organization than you were five years ago?**
Yes 49.3%
No 15.4%
The same 34.8%

■ **Has your company "down-sized" in the past two years?**
Yes 38.9%
No 60.6%

■ **If so, do you intend more down-sizing in the next two years?**
Yes 35.0%
No 63.3%

■ **If not, do you intend to down-size in the next two years?**
Yes 6.0%
No 87.8%

■ **In the next three years, will you shift any operations overseas?**
Yes 7.7%
No 75.7%
Don't know 16.6%

■ **Which country outside the United States is the most attractive for a company like yours?**
United Kingdom 10.2%
Canada 6.9%
Mexico 5.4%

■ **Which state is the most attractive for a company like yours?**
Texas 11.3%
North Carolina 6.2%
Florida 5.7%

■ **Do you personally spend time in Washington lobbying?**
Yes 38.6%
No 60.9%

■ **Do you feel that the time you spend lobbying is productive?**
Extremely 13.6%
Very 23.8%
Somewhat 56.6%
Not really 4.3%
Not at all 1.7%

■ **Are you more in the press limelight these days than you have been in the past?**
Yes 62.7%
No 36.8%

■ **Do you enjoy the added press attention?**
Yes 48.7%
No 45.0%

■ **How satisfied are you with your company's work force today?**
Very satisfied 44.3%
Somewhat satisfied 45.8%
Somewhat dissatisfied 9.4%
Very dissatisfied 0.3%

■ **Is recruiting your work force today easier than in the past?**
Easier 32.8%
More difficult 47.3%
About the same 19.0%

■ **How satisfied are you with your company's middle management?**
Very satisfied 41.9%
Somewhat satisfied 47.6%
Somewhat dissatisfied 8.7%
Very dissatisfied 1.8%

■ **Is recruiting middle management easier today than in the past?**
Easier 33.8%
Harder 39.4%
About the same 24.6%

■ **Which issues worry you the most in running your company?**
Federal deficit 28.2%
Government regulation 20.5%
Economic recession 20.4%
Lawsuits 16.7%
Foreign competition 15.1%

■ **How confident are you that your company will be able to meet the challenges facing it?**
Extremely 32.2%
Very 49.1%
Moderately 15.1%
Somewhat 2.5%
Little 0.7%

■ **Is your company doing enough to stay competitive globally?**
Yes 49.6%
No 19.5%
Don't know 30.9%

■ **How serious a problem are drugs and alcohol in your company?**
Very serious 3.1%
Somewhat serious 16.1%
Slight 54.0%
No problem 25.8%

■ **In the next three years, will drug and alcohol problems increase?**
Increase 19.4%
Decrease 17.7%
Remain the same 62.1%

■ **How serious a work-place problem will AIDS be in the next three years?**
Very serious 17.4%
Somewhat serious 35.5%
Slight 31.0%
No problem 13.5%

■ **Has your company established a policy with respect to AIDS?**
Yes 14.0%
No 85.1%

■ **Is it better to stay within the corporation for a successor?**
Stay inside 68.3%
Go outside 3.4%
It depends 27.1%

■ **How much time have you devoted to the issue of succession?**
A great deal 29.4%
Some, but not much 38.4%
Very little 23.0%
No time 7.9%

■ **Are there any attributes your successor will need that you feel you don't have?**
Yes 67.8%
No 29.4%

■ **What specific attributes do you have in mind?**
Financial skills 19.9%
Technical skills 14.5%
Marketing skills 11.9%

■ **What are your greatest accomplishments as chief executive?**
Company growth 20.0%
Building team spirit 18.6%
Restructuring 15.9%
Earnings growth 15.9%

■ **What have your greatest disappointments as chief executive been?**
Takes too long to make changes 12.6%
Earnings not up to expectations 8.5%
Personnel disappointments 7.2%

■ **Who is your management guru?**
No one 33.0%
Peter Drucker 22.5%
Tom Peters 6.9%

■ **In 1987, what is the most stressful situation you had to face?**
New owners 13.3%
Management changes 11.0%
Laying off personnel 6.7%

Some questions have been paraphrased. Percentages may not total 100 because of omitted responses or rounding off.

WHAT THEY'RE THINKING

U.S. COMPETITIVENESS

- **"The sleeping giant is awakening and we still have a lot of raw materials."**
- **"Management styles will change. Restructuring is well on its way. Companies are more efficient and productive as a result."**
- **"We are losing technological leadership—importing new technologies rather than exporting them, thus losing market share."**
- **"The productivity of the Asian nations is just beginning, and they will be able to swamp the world with the goods that the United States generally produced for itself and the world."**

THE CEO'S ROLE

- **"I have to spend more time on public relations and dealing with lawsuits and state, local and federal regulations—leaving no time to market the product."**
- **"The job is much more political. The decision-making process must contain a higher degree of concern for the public's reaction."**
- **"There is much greater stress placed on performing for a group of shareholders that have a short-term view of the company."**
- **"There is increased attention to takeover threats and subsequent litigation, and I cannot address company growth."**

DISAPPOINTMENTS

- **"We are not at a competitive level in terms of technology."**
- **"Our earnings increase was not up to expectations."**
- **"I have been unable to motivate the team to their maximum potential."**
- **"We have been unable to get the government to release its stranglehold on our business."**
- **"I've made poor acquisition decisions. We're now disposing of them."**
- **"We're not more profitable."**
- **"People who turned out to be dishonest and disloyal."**

heart and soul of the American business ethic. Alas, that is not exactly consistent with "down-sizing." Neither was the second-place "greatest accomplishment" response: "building employee team spirit."

Still, the cutbacks were made; business is not a game for sissies. For some flavor of the stress they feel, consider the response of one chief executive when asked what his "advice for his successor" would be: "This particular company is on a fine balancing point. Either it will make a lot of money or it will lose a lot. Be very careful—cost control is the most important factor here."

The chief executives also thought that the government could do more to help industry hone its competitive edge. In particular, 83 percent of these largely Republican CEOs think that the government isn't doing enough to stimulate research and development. They're not talking about government butting into the research process. Most specifically, 67 percent want tax incentives.

They also think the government (the SEC) should modify the rule requiring quarterly financial reports. "Change the reporting requirements," suggested one executive. "England has a six-month reporting cycle. In the Japanese culture, they think only on a long-term basis."

Similarly, chief executives believe that the government should make it cheaper for them to make new investment. Here is a typical observation: "The government should quit changing the rules so frequently—especially taxes . . . and there should be tax breaks to encourage investment."

There is a perception-reality angle in the otherwise clear, yet newsworthy, story in the survey's political material. The clarity can be summed up in one word: "Republican." The newsworthiness takes two: "Bob Dole."

Not surprisingly, most chief executives are Republicans. But the totals are monumental: Sixty-three percent of the sample is Republican; 28 percent classify themselves as independent. A mere handful—8 percent—are Democrats.

By contrast, a recent Yankelovich Clancy Shulman poll showed that among all Americans 23 percent were Republican, 35 percent Democrat, and 39 percent independent. Even among Americans with annual incomes in excess of $50,000, only 30 percent were Republicans. So it is fair to say that American chief executives are *very* Republican.

As might be expected, a solid plurality of chief executives (43 percent) think that Vice President Bush will be the next President, while about only half that number (23 percent) think Dole will be the winner. That's the conventional wisdom; Bush is the current front-runner, and the chief executives seem to be reflecting what the well-publicized public polls say.

Chief executives are a long way from Kemp-style, supply-side, conservative populism.

What is of far more interest is not who they think *will* be the next President, but who they *want* to be the next President. And that—contrary to the polls—is Robert Dole over George Bush. Now, Dole's margin over Bush (32 percent to 30 percent) is minimal and not statistically significant in a sample of this size. But flying in the face of two-to-one Bush-tilted public polls, it is of great political significance.

It means that Dole will have major support from a key Republican constituency group: the corporate world. Dole, accordingly, can expect a healthy share of what has been described as "the mother's milk of politics": money. If the chief executive is pro-Dole, it is reasonable to assume not only that Dole may get a personal contribution, but that he will also probably be well treated by that corporation's political action committee, and by the PAC representing the trade association that represents the chief executive's corporation.

All that is to the good for Dole. It can be very important in the months to come.

Of great interest: Jack Kemp draws only 2 percent of the vote in our survey. Our chief executives, it is fair to say, are a long way from Kemp-style, supply-side, conservative populism. Their admirers would call them "moderate, traditional Republicans." Their detractors might call them "country-club Republicans."

One caveat should be offered up here, however. Truth be told, none of us knows very much about how our political system works. And so, for humility's sake, remember that if one had to pick the "chief executives' candidate" in 1980, it probably would have been—John Connally.

In any event, these chief executives are not expecting a Democratic victory in 1988. They may not know more about national politics than thee or me—perception versus reality again—but by 41 percent to 30 percent they predict a Republican victory, with 27 percent calling it even as of now. When they are asked to name the candidate they expect to win, it gets even better for the GOP: Sixty-nine percent pick one of the Republican horses while 16 percent choose a Democrat.

The chief executives also harbor very Republican views about those devil Democrats. When asked an open-ended question about the implications of a Democrat capturing the White House, they offered up the five hoary horsemen of the economic apocalypse: higher taxes, more government spending, business demoralization, more regulation and renewed inflation. Otherwise, no problem.

Predictably, 46 percent of the chief executives want the government to spend less on social programs. And 27 percent believe that the private sector can fill the gap; 11 percent were uncertain. Only 16 percent say that the government should spend more.

CEOs seem remarkably unconcerned about labor unions these days. Only 6 percent of them offered up "Strengthening of unions" as an implication of a Democratic victory. Only 10 percent think the power of labor unions will increase, while 51 percent expect it to decrease and 39 percent expect it to remain the same.

In this instance, perception may count as much as reality: The perception of weakness is a problem for any negotiator anywhere. In that sense, clearly, the unions have their work cut out for them.

The chief executives support surprisingly moderate political positions on many issues. About half (49 percent) favor a tax increase in order to lower the budget deficit. Of those who favor a tax increase, 49 percent would raise personal income taxes, 37 percent would raise corporate income taxes and 21 percent want a value-added tax. Energy, excise and use taxes were named less than 10 percent of the time.

In addition, there is a large amount of protectionist sentiment, at least if "retaliation" is the current code word for protectionism. Forty-nine percent support retaliation against countries that do not open their markets to U.S. goods; 44 percent are opposed and 7 percent are uncertain.

This sentiment, however, does not appear to be mindless foreigner-bashing. It is only protection. After all, the survey shows that 94 percent of the chief executives believe that American companies should work harder to learn from foreign industry, and 83 percent are against Congress limiting foreign investment in American companies.

The chief executives also take a moderate stance on the issue of business ethics. Far from rejecting accusations of a falloff in ethics in business, 89 percent think that criticism of business ethics is "totally justified" or "somewhat justified"; only 11 percent say the criticism is "totally unjustified" or that they are "uncertain."

> *'I've run into situations where handshakes don't mean much anymore.'*

The passion behind these numbers can be seen in the executives' comments, which sometimes reflect personal experiences. Says one chief executive: "I've run into situations where handshakes don't mean much anymore." Another chief executive observes: "There is pressure put on heads of companies to produce a bottom line, so sometimes people will circumvent the law."

So what do we see? Current stress and future success among a new breed of chief executives who have already changed American business and will change it yet more in years to come. They've seen the specter of competition and have become lean and mean. They have changed their priorities. They are on their way.

But the chief executives have a specific personal gripe. These are can-do guys. And they are doing what they can. But, alas, corporations—like other human institutions—don't respond to immediate commands from can-do executives. That is frustrating. Listen to them list their "greatest disappointments": "The length of time needed to accomplish meaningful change in a large organization," says one. "It takes a long time to change the corporate culture," says another.

Chief executives, like the rest of us, are worried about the future their children will face. In their answers to the question, "What concerns you most about your children?" they reveal an inchoate fear of the future. They are worried about their children's economic well-being, despite the optimism they express in other parts of the survey. "How are they going to adjust to the fact that everyone eventually is going to have to accept a lower standard of living?" asks one chief executive.

Stress and success. It is a new story with new circumstances, and yet as old as American business itself. Our businessmen have faced structural and economic change before: Mass production and the Depression come most immediately to mind. By and large they responded with vigor and intelligence and built the premier economic machine in history. They think they can do it again.

Can they? We shall find out. A single survey such as this one can be very interesting. But changes over time often yield a fuller story, offering not only isolated facts but trends. It is the intent of BUSINESS MONTH to take this survey annually and publish the results. There is business revolution aborning. Stay in touch. ■

WHAT THEY'RE THINKING

SUPPORTING R&D

■ "There needs to be interaction between private industry and government-sponsored programs. Government should sponsor research and provide seed money to encourage private individuals to bring their research to fruition and to the marketplace."

■ "Dollars should be made available to university research labs—with the appropriate strings, so money is not pilfered away. The private sector should be brought in with the same caveat."

ETHICS

■ "There seems to have been a general loosening of moral standards in our society. This has crept into business and it needs to be stopped. American business is based on personal integrity. If we lose that, we're no better than a place like Mexico."

■ "I assume that only the big boys are reported, indicating there is even more below the surface that we don't know of."

■ "Business has failed to order its priorities, to give full appreciation to long-term interests. In so doing, it has become so obsessed with short-term results that it has been willing to employ unethical methods to provide substandard goods and deliver questionable services in an effort to maximize gains."

■ "We have a group of business people who feel any way to make money is justified. We must get them back to principles that provide quality products and fair prices."

■ "Too many corporations have lost sight of honesty in favor of profit and sales volume."

A SERVICE ECONOMY

■ "Man is both a physical and an intellectual and spiritual being. A service economy satisfies the intellectual; the physical requires production. We don't need great thoughts in an empty room."

■ "I don't think we will ever be a total service economy. The resurgence in manufacturing is under way."

■ "A service economy leaves a country without teeth."

■ "Information may be power, but real wealth is in production."

DANGER AND OPPORTUNITY

The world can get to the year 2000 in pretty good economic shape, but it won't be easy. There is technology to watch out for, not to mention myopia.

BY WALT W. ROSTOW

I am aware that chief executives live in a world where they bear an inescapable responsibility for profits and must therefore concern themselves with costs, markets and output next month and next year. In looking down the road to the year 2000, I shall have to consider more distant forces; but I shall try to say something along the way, and in the end, about the meaning of the picture I draw for the operating world of the chief executive officer.

Two reservations. First, John Maynard Keynes once wrote: "The inevitable never happens. It is the unexpected always." That proposition should remain firmly before the reader as well as the writer of an article that ventures to look a dozen years ahead.

Second, one of my conclusions as both a historian and a former public servant is that it is dangerous to separate the long run from the short run. The long run is powerfully shaped by what happens from day to day.

That proposition has a particular meaning right now. The United States is in the midst of a deeply rooted economic crisis caused by a sustained effort to live beyond its means. We have been running this country the way Mayor John Lindsay ran New York City. The symptoms of the crisis are known to us all: the federal deficit; the related but even more dangerous trade deficit; the shift from a surplus to a debtor nation; a greatly weakened dollar, which may help with the trade deficit but at the certain cost of our standard of living and increased inflationary pressure. Much depends on our wage discipline in handling that pressure. If we are to get the benefit in expanded exports from the devalued dollar, we shall have to avoid wage increases in excess of productivity increases.

In general, how things look in the year 2000 will be greatly affected by the manner, the timing and the degree of success with which we work our way out of this crisis. That process could leave us more unified at home and strengthened abroad, or it could lead to a corrosion of our domestic life, the fragmentation of our alliances across the Atlantic and Pacific and heightened tension with the Soviet Union. It is not difficult to construct the scenario either way.

> *The United States is in the midst of a deeply rooted economic crisis caused by a sustained effort to live beyond its means.*

I shall build this article on the optimistic assumption that the United States will work its way out of the crisis in pretty good style. Not only is that assumption necessary if I am to focus on the long-run forces at work, but I believe that it is probably correct. Despite the fact that neither national political party has yet faced up fully to the challenges posed by our current situation, I believe, on balance and without naïveté, that our great continental society remains vital and resilient. My first conclusion is that this underlying resilience will assert itself politically before the year 2000, and that a new phase in our national political life will be installed by that time.

I hold this temperately optimistic view not out of simple faith but because the politics of partnership can be observed alive and well at the state and local levels. There are, of course, states and cities where politics and social life are dominated by tension and raw confrontation. But the dominant trend outside Washington is toward cooperation in an effort to solve problems that, it is widely appreciated, can be solved only by cooperation.

This process can be perceived in relations between business and labor as both face the reality of brutal international competition and the consequent choice of either closing down the plant or cutting costs and raising productivity. The reconstruction of the centers of many American cities has been the product of even more complex partnerships embracing the private sector (including banks, insurance companies and pension funds) and state and local government, with the universities and labor often lending a hand.

Most important of all have been the partnerships between the universities and the private sector in generating and diffusing new technologies, with state and local governments and financial institutions sometimes getting into the act with new forms of venture capital. There are now some 50 high-tech concentrations in the United States built by such partnerships. Not all will flourish, but each repre-

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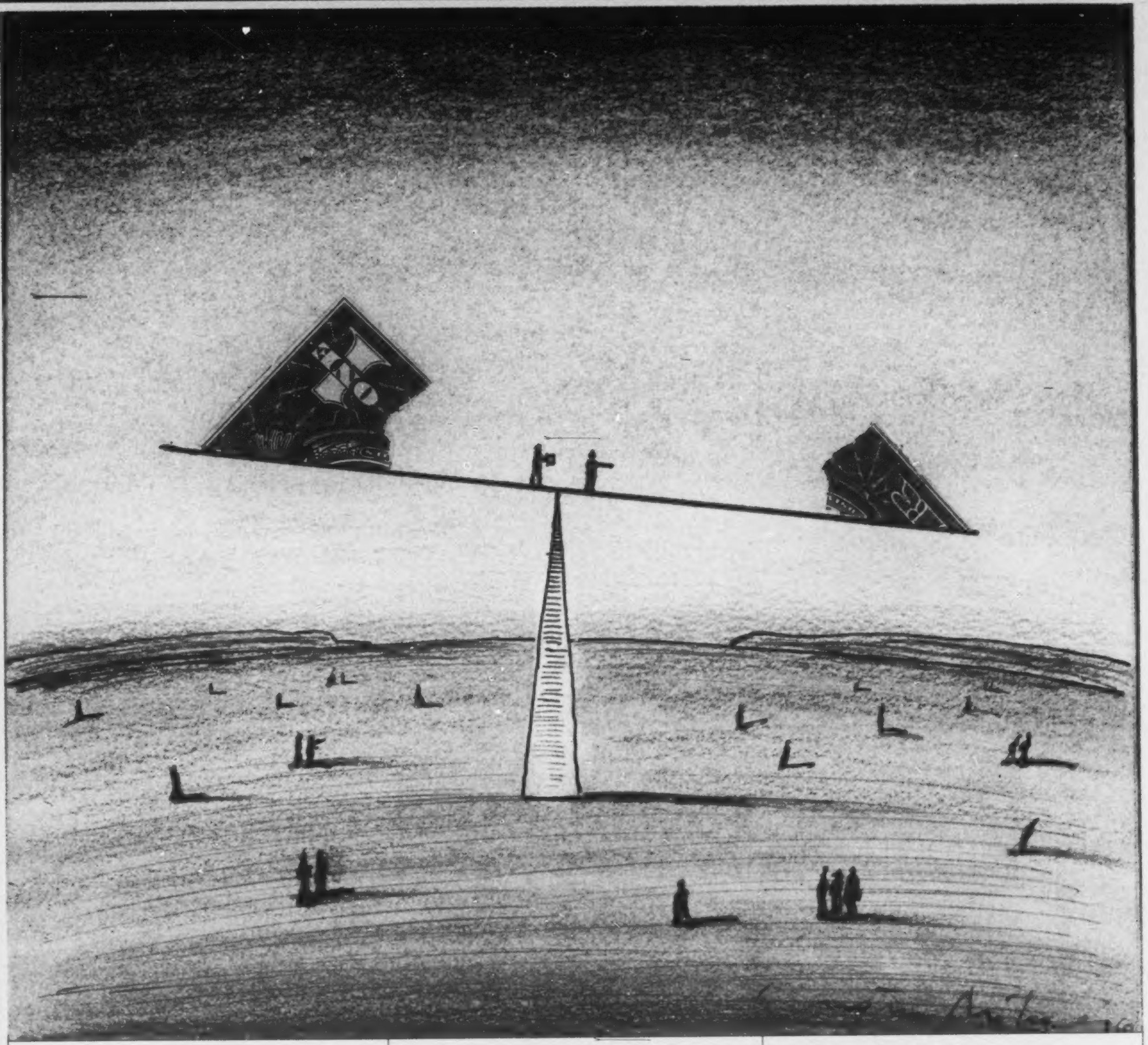


EUGENE MIHAESCO

sents a form of cooperation not to be found in either economics or government textbooks. And I rate as one of the most powerful positive forces in the country the intense competition among the states to attract and expand high-tech firms.

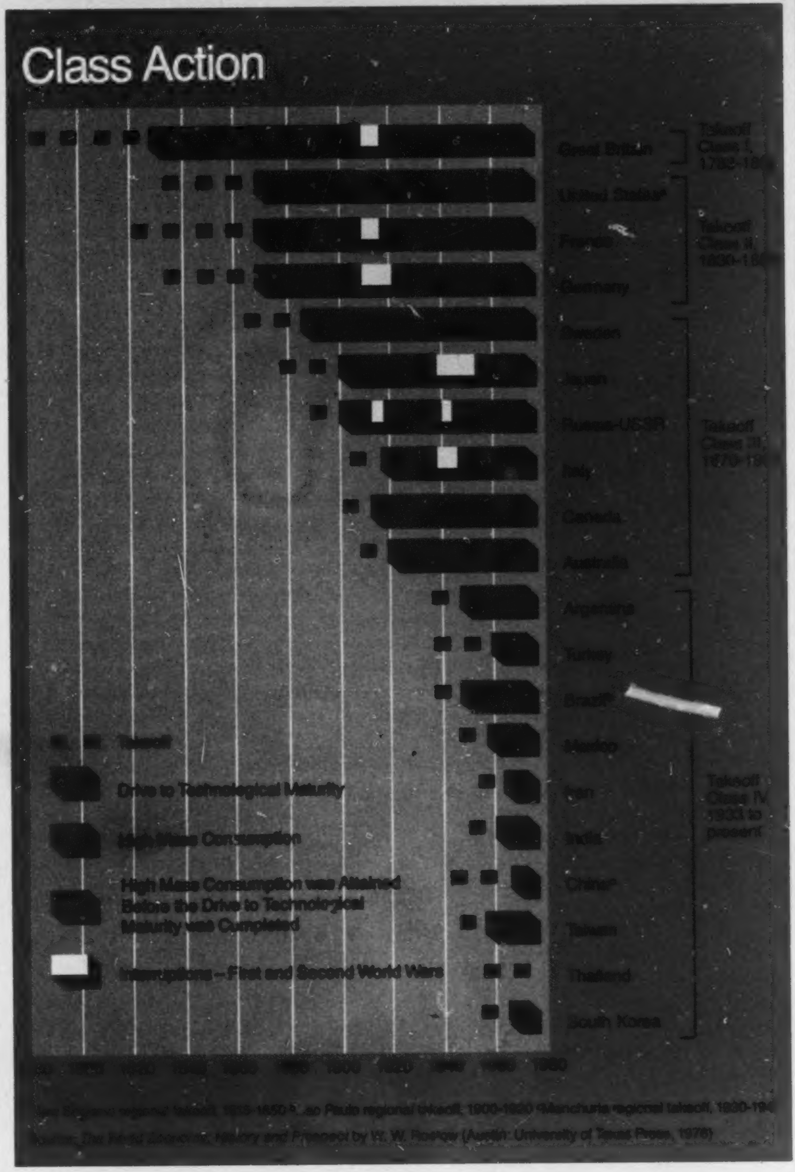
That competition has carried with it a renewed realization that first-rate educational institutions are vital to the bottom line. I say "renewed" because land-grant colleges were built on that realization starting more than 120 years ago, and the tradition of collaboration they inaugurated between the universities and the private sector represents a major advantage for the United States relative to most of the rest of the world at a time of technological revolution.

In any case, I believe that, as often in American history, developments in the states now herald the shape of national politics, and that we will see the politics of partnership and cooperation dominant at the national level by the year 2000—probably well before.

I believe this will happen not because the American people will experience an infusion of brotherly love or a reduction in our particular national dose of original sin. I believe that the process is under way because we remain a society with a will to survive and the energy to grapple with the problems that the flow of history places before us. We will continue to behave at home as we often (and dangerously) have behaved on the world scene—in conformity with Samuel Johnson's 18th-century dictum: "Depend upon it, sir, when a man knows he is to be hanged in a fortnight, it concentrates his mind wonderfully." The gallows in this case are the shift in the Atlantic world from the politics of dividing an expanding pie to the politics of dealing with a protracted competitive test of our viability as nation-states.

For more than a century now—since, say, Bismarck outflanked the German Socialists with the first modern social-welfare legislation—the politics of the Western world have focused (like the recent budget debates in Washington) on the division of a nation's resources between social-welfare outlays (and income redistribution in favor of the disadvantaged) and the claims of the private sector. Occasionally, allocations to the military entered what was essentially a running zero-sum debate, softened by the underlying assumption that the pie was more or less automatically expanding. Social-welfare

Class Action



^a New England regional takeoff, 1815-1850 ^b Sao Paulo regional takeoff, 1900-1920 ^c Manchuria regional takeoff, 1930-194

Source: The World Economy: History and Prospect by W. W. Rostow (Austin: University of Texas Press, 1978)

outlays rose from 4 percent in 1913 (an average for the United States, the United Kingdom and Germany) to about 14 percent for the major advanced industrial countries by 1960 and 24 percent by the mid-1970s.

The central question before the United States and the Western world generally is whether the resources to be divided will continue to increase. The question arises because of two great historical developments: first, the emergence around the mid-1970s of the technological revolution embracing microelectronics, genetic engineering, a new batch of manufactured industrial materials and the increasingly ubiquitous laser; second, the rise toward technological competence, over the full spectrum of possibilities, of the major countries of Latin America, a substantial group of countries in the Pacific and, most significant of all, China and India.

Each of these developments—like the two Chinese characters for the word *crisis*—is both a danger and an opportunity.

The new technological possibilities represent the fourth such concentration over the past two centuries. The first, which came on stage in Britain in the 1780s, consisted of new textile machinery, the fabrication of good iron with coke rather than charcoal and Watt's improved steam engine. The second, the steam railroad, emerged in a big way in the 1840s and led to the manufacture of cheap steel by the 1870s. The third, occurring around the turn of the century, embraced electricity, the internal combustion engine and a batch of new chemicals.

As opposed to the earlier technological revolutions, this one is marked by close links to areas of basic science that are themselves evolving in a revolutionary way. Business leaders will have to operate in an environment of extremely rapid change. Our business schools and textbooks on administration are not geared to, say, an obsolescence rate of 30 percent a year.

The danger posed by the new technological revolution can, then, be quite precisely defined. It does not lie in the likelihood that we will be outstripped by others in the pace at which we generate new technologies. It lies in the fact that in certain key sectors of the economy, neither management nor labor has fully accepted the proposition that both profits and real wages—indeed, economic survival—now depend on the pace of technological change.

We were and remain quite competitive in three sectors that, in effect, arose out of laboratories: electronics, chemicals and aerospace. We fell dangerously behind in steel, motor vehicles, machine tools and textiles, where the links between management and research and development were weak. Henry Ford's creation of the moving assembly line was a major act of creative engineering. But it did not arise from basic science; it was built on direct analogy to a slaughterhouse. Henry Ford wouldn't have been caught dead talking to a professor. We still need engineering imagination, but we need a great deal more.

Certainly the most confident of my predictions about the year 2000 is that successful American leaders will have to understand how to handle the links between science, invention, management and the work force. This means that labor retraining will be a major endless task. Put another way, whether we face danger or opportunity hinges on the pace at which we efficiently apply the new technologies across the whole face of the economy.

The importance of this task of business leadership is heightened by the second challenge we confront. The chart on this page shows the approximate historical timing of the entrance of four "graduating classes" (of nations) into what I call takeoff and what the economist Simon Kuznets called the beginning of modern economic growth. Most of the fourth class (which includes other countries of Latin America and the Middle East besides those named) is now in what I call the drive to technological maturity. That is the stage at which a society's capacity to absorb new technologies radically expands, its growth rate reaches its maximum and it learns to produce competitively the full range of modern manufactures. In the course of that process, it becomes at once an enlarged market for the technologically sophisticated exports of advanced industrial countries and a competitor in sectors of lesser sophistication.

Right now our major anxiety is focused on the trade surpluses built up mainly at our expense by Japan and West Germany. But, as the Japanese are fully aware, their primacy in the manufacture of motor vehicles and durable consumer goods is already being undermined by South Korea, Taiwan and other aspiring countries of the Pacific Basin, while U.S. airlines are using Brazilian-manufactured aircraft in increasing numbers on feeder lines. Quite conscious of the new trend, Japan is using its surplus now to invest abroad, so that its earnings from dividends and profits can support its balance of payments as the United States recovers its poise and the fourth graduating class moves on to technological maturity.

For this process to proceed to full term, evidently, the Latin American countries will have to work their way out of their debt problems (with the help of the world community), and the Middle East will have to at last find stable peace. But what about India and China? Do these two vast countries with low levels of income per capita really belong among the likely challengers in this round?

I believe they do. They may be among the poorest of the developing countries, but they are also among the technologically most sophisticated. They can already produce atomic weapons, rockets, aircraft, motor vehicles and machine tools. At a talk I gave in Hong Kong in 1969, I made what seemed to local listeners to be a bad joke. When asked about the turning over of the city to China in the 1990s, I said I thought it would be a close thing whether China took over Hong Kong or Hong Kong took over China. Right now, the south of China is alive with factories manufacturing all manner of consumer goods under Hong Kong's tutelage. Hong Kong (and Taiwan) will leave a deep imprint on Chinese history.

> *Whether we face danger or opportunity hinges on the pace at which we efficiently apply the new technologies across the economy.*

But the deeper reason for taking the fourth graduating class, including India and China, seriously lies in the educational revolution in these countries (see table below). As the current situation in the Soviet Union suggests, it takes more than a critical mass of educated men and women to absorb sophisticated modern technology efficiently.

It also requires a system that provides strong incentives for technological change plus institutional arrangements that make the scientist, engineer, businessman and worker an effective interacting team. It would be most unwise for American business to assume that the fourth graduating class, despite the current vicissitudes of a good many of its members, will not fulfill those conditions over the next generation. The Chinese universities, for example, were gravely set back by the Cultural Revolution. But surely this loss will be fully made up by the year 2000.

The problem posed by this prospect is not new. Academics may argue legitimately as to who deserves the title of the first modern economist, but the name of David Hume would have to appear on any list of contestants. His essays in economics have been called "the Cradle of Political Economy," and one of Adam Smith's major biographers said: "But for Hume, Smith could never have been."

Writing in 1758, Hume asked what would happen to front-runners that first developed the skills of large-scale trade—the specializations that go with the exploitation of comparative advantage, including improvement in "the mechanic arts"—when their success stirred a "fermentation" in less advanced societies, which proceeded to imitate the more advanced but with the advantage of lower wage rates. His answer, in response to the mercantilist instinct to throttle the latecomers in the cradle, was that a front-runner could enjoy the advantages of expanded two-way trade with the aspiring country if it maintained an open trading system, but that to sustain the inevitably intensified competition it would have to remain "industrious and civilized."

Hume's summation: "Nor needs any state entertain apprehensions that their neighbors will improve to such a degree in every art and manufacture as to have no demand from them. Nature, by giving a diversity of geniuses, climates and soils to different nations, has secured their mutual intercourse and commerce, as long as they all remain industrious and civilized. Nay, the more the arts increase in any state, the more will be its demands from its industrious neighbors."

What, then, are the implications of future developments for American business in its dealings with Japan, Western Europe, the Soviet Union and the developing nations?

There is a good deal of talk about a loosening of U.S. ties across the Atlantic and Pacific. And there is some basis for this view: for example, strong isolationist impulses still alive in American political life; chronic anti-Americanism in Western Europe; the self-inflicted wounds on the international economic position of the United States since 1981; and, whether justified or not, less fear on both sides of the Atlantic of a Soviet Union now preoccupied with the restructuring of its domestic life and international arrangements. And, as I noted at the beginning, it is not difficult to

CLASSROOM ACTION

	Number enrolled in secondary school as percentage of age group		Number enrolled in higher education as percentage of population age 20 to 24	
	1960	1982	1960	1982
Low-Income Economies*	15%	30%	3%	4%
India	20	30	5	9
China	—	35	—	1
Lower-Middle-Income Economies*	10	35	4	10
Upper-Middle-Income Economies*	20	51	5	14
South Korea	27	89	6	24
Brazil	11	32	2	12
Mexico	11	54	4	15
Argentina	23	59	14	25
Hong Kong	20	67	5	11
Singapore	32	66	10	11
Industrial-Market Economies*	64	85	16	37

Source: *World Bank Development Report 1984 and 1986.*
*Percentages are averages.

write a scenario of fragmentation and international chaos.

But I am inclined to think it a bit more probable that the ties across the Atlantic and Pacific will remain for certain abiding reasons and that they will intensify for certain new ones. The abiding reasons are the deeply rooted common interests of Western Europe and the United States in maintaining a balance of power in Europe, and of Japan, China and the United States in maintaining a balance of power in Asia. In a nuclear age, this requires the presence of substantial U.S. conventional military force in both regions. Most Americans understand that there is no security for us in isolationism, although it is quite possible that a more united Europe and Japan will assume a larger share of common tasks by the year 2000.

These transoceanic ties may well intensify for economic and technological reasons. Every television viewer in the United States is now aware of the heightened financial interdependencies dramatized since October 19 by the intimate interaction of capital markets in New York, Tokyo, Hong Kong, Sydney and London.

The high-tech interdependencies are not yet as well understood. Beneath the surface—and the reality—of technological competition, a rather subtle fact is asserting itself: Each of the major new areas of technology is so diversified that lines of comparative advantage are emerging within each. These are leading to expanding levels of trade in high-tech products and an extraordinary network of binational and multinational high-tech ventures. I have no doubt that sufficiently unwise policies could once again fragment and impoverish the world economy. But it is a harder world to pull apart than that of the 1930s.

Finally, the coming of the Soviet Union into the central affairs of the world economy, and the foreseeable emergence of India, China, Brazil and others, is likely to heighten rather than dilute the common interests of the industrialized world.

So far as the Pacific is concerned, this tendency will be strengthened if the governments of the region, without interfering with the extraordinary private trade and payments network now operating, set up a Pacific Basin intergovernmental organization embracing the region's advanced industrial and developing countries to deal with an increasingly recognized group of supplementary problems and possibilities.

The Soviet Union is obviously undergoing its most profound changes since Lenin seized power in 1917. Gorbachev may or may not succeed in his current effort to restructure Soviet society, but the Soviet Union, like the United States, cannot escape from the reality of the current technological revolution or from the emergence of the new group of technologically competent industrial powers. To deal with these phenomena it must overcome the fact that its noncompetitive system is poorly geared to the task of absorbing new technologies. It must face the fact that neither it nor any other nation is capable of controlling a world of increasingly diffuse power and nationalist assertiveness, and it must do so at a time when awareness of the virtues of competitive markets and aspiration for political democracy are rising in many parts of the world, including the Soviet empire.

Gorbachev appears to understand all this. He is quite explicit that his policies at home are required to prevent the Soviet Union from losing its status as a superpower, and he has concluded that the Soviet economy cannot be fully modernized unless it joins the world economy and becomes internationally competitive. That is why the Soviet Union is in the process of joining the General Agreement on Tariffs and Trade, seeking observer status in the World Bank and the International Monetary Fund, beginning joint ventures, planning a politically precarious price reform and talking, at least, about a future convertible ruble.

> *As for CEOs, they had better learn more about science and technology and administering in an environment of rapid obsolescence.*

I certainly cannot predict precisely where this quite revolutionary adjustment to reality will stand in the year 2000. But in one way or another these are the directions in which powerful historical forces are pushing the Soviet Union. And for an American chief executive, the opportunity for mutually advantageous business arrangements is likely to expand gradually, with many headaches along the way. Should the Soviet Union prove capable of restructuring its political, social and economic institutions in such a way as to permit its talented pool of scientists and engineers to absorb efficiently the large backlog of unapplied technologies available, it may experience a surge of growth like that of Japan after 1955. But slower, uneven progress appears more likely down to the year 2000.

As I argued in the Spring 1987 issue of

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Foreign Affairs ("On Ending the Cold War"), there are good reasons in the emerging world environment for the cold war as we have known it for more than 40 years to wither away; but a poor performance by the United States at home and abroad could unnecessarily revive it.

After a decade of not-so-benign neglect, and another of narrow concentration on Central America, it is time to build a new relationship with Latin America. The essential instruments already exist: the Organization of American States and the Inter-American Development Bank. But the relationship cannot be an exercise in nostalgia for the Alliance of Progress; neither Latin America nor the United States is as it was when President Kennedy made his Alliance speech in March 1961. Latin America is a more mature if hard-pressed region, with wider global interests.

But we share problems and possibilities on which a new agenda could be built (quite aside from a definitive settlement of the debt question): the new technologies, environmental protection, patient joint efforts on some of the hard cases (Bolivia and Haiti, for example) and combined support for subregional efforts in the Caribbean and Central America. There is every reason to revive a dignified dialogue among partners with a Latin America moving toward technological maturity and struggling to sustain democracies consistent with a humane culture.

We will, of course, face other important problems down to the year 2000—problems in the Middle East and Africa and, quite possibly, another phase of relative energy shortage. And Keynes will be at least partially right; unexpected things will certainly happen.

But my central conclusion is quite simple. If we make good my optimistic assumption and face the two challenging revolutions—new technology and the maturation of a good many third-world countries—in an "industrious and civilized" manner, we can go into the new century in a more prosperous and peaceful world than the one we know. As for CEOs, they had better learn more about science and technology and administering in an environment of rapid obsolescence. And an extra foreign language or two won't hurt, because the interaction between our economy and others will surely intensify.

The greatest task of CEOs is not to guess or await the outcome but to play a vigorous role in making the optimistic assumption come true. And this means working much more closely with universities, the labor force, the political process—in short, with the whole community of which they are a critical part. ■

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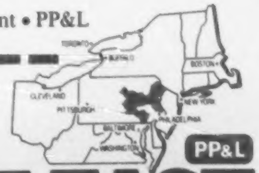

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John Akers

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COVER PHOTOGRAPH: LOUIS PSIHOYOS

PART-TIME WORKERS

I read with much amusement the article concerning part-time employees ("Part-Time Work Force," October). The criticisms of management concerning these people can be traced to one source—management itself.

Few managers understand how best to utilize temporary employees, which is more than evident from some of the ludicrous comments in the article. If a firm is not getting the results it desires, then it needs to reevaluate how it selects and procures these people.

My experience as a former manager and consultant shows two common areas of failure in dealing with part-time workers. Few temporary agencies do even minimal pre-screening of employees. Furthermore, most companies select temps on the basis of price, not ability. In addition, far too many companies abuse employees in ways that their permanent work force would never accept.

Part-time workers are valuable assets to American industry. Like any other asset, they must be properly chosen and utilized.

DONALD C. KIRKENDALL
Orlando, Florida

EXECUTIVE WAGES

The views of C. Jackson Grayson Jr. on compensation design ("Speaking Out," November) are mostly generalities and statistical aggregates irrelevant to specific segregates. Mr. Grayson asserts that "wages in the steel industry rose 16 percent over the past 10 years, but executive pay rose 52 percent."

That is too absurdly wrong to overlook! During that very decade, USX, America's largest steel company, cut its executive dollar payroll by more than one-half in absolute terms and by two-thirds in real terms. We reduced our steel executive positions from 45 to 13. Over the same period, wage hours were also reduced significantly, but our hourly wage costs rose by 73 percent.

J. BRUCE JOHNSTON
Executive Vice President
Employee Relations
USX Corporation
Pittsburgh

CORPORATE CULTURE

I enjoyed Edwin Newman's article "They Could Try a Little English" (December), particularly his remark on "corporate culture."

To clarify the term, corporate culture resembles a laboratory culture, which is a cultivation of living material in a prepared nutrient medium. The two kinds of culture share certain characteristics:

1. The living material will often go through mutations and suddenly become something different.
2. Changes in the nutrient—the addition of a little red ink, for example—will completely change the culture. A new chairman or chief executive will often render the culture unrecognizable.
3. Acquisitions will be as deadly to the corporate culture as the addition of penicillin is to a bacteria culture.
4. Cultures are most often short-lived; once their purpose has been served, they are replaced.

MICHAEL F. FITZPATRICK
Mountainside, New Jersey

WEIGHT WATCHERS

In the article about H.J. Heinz ("What Happened to Last Year's Top Five") in your December issue, you state: "Weight Watchers frozen entrees, the company's fastest-growing unit, has carved out a 10.1 percent share of the market with the swift introduction of new products, closing in on the 12 percent share held by Swanson's Lean Cuisine, the market leader." For your information, the Lean Cuisine brand belongs to Stouffer's, and its share of the market far exceeds the 12 percent figure mentioned.

EDWIN T. FRANTZ
Vice President, Long Range Planning
Nestlé Enterprises
Solon, Ohio

DOW'S TOWN

In your article "The Town of Dow" (December), you write that "almost all the heads of the Chamber of Commerce committees" are Dow employees. The fact is that only one out of 13 committees is headed by an employee of Dow Chemical Company.

SUSAN L. WHITAKER
Director, Advertising Sales
Midland Area Chamber of Commerce
Midland, Michigan

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THE MONTH IN PERSPECTIVE

FEBRUARY 1988

PUTTING THE RECESSION ON HOLD

There is an important message in the narrowing of the trade deficit in November to $13.2 billion from a record $17.6 billion the previous month: no recession for the foreseeable future. With exports growing at an estimated 15 percent, profits in the smokestack industries are moving up. This is stimulating a resurgence in capital spending. "The spectacular growth of exports is the only thing preventing the U.S. from sliding into a recession," says Robert A. Brusca, chief economist for Nikko Securities.

The only threat to the export boom, says Brusca, is slow growth in other industrial countries, especially Germany. "Even more competitive U.S. goods won't sell if people overseas aren't earning enough to buy them," he says.

—*Edward M. Mervosh*

IDENTIFIABLE DEMOCRATS

Contrary to the predictions of most political commentators that the Democrats would move to the middle of the road after two Reagan landslides, all of the party's presidential candidates are taking a strong liberal stance. Even Senator Albert Gore of Tennessee, the most conservative Democrat in the race, had an AFL-CIO rating between 86 percent and 93 percent in five of the six years before he began running for President.

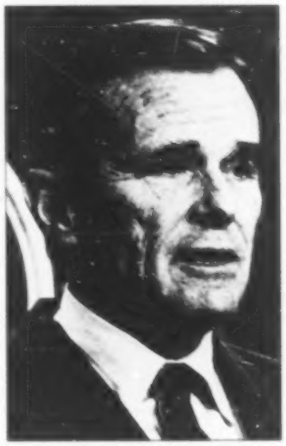
That's a far cry from 1984, when Senator John Glenn of Ohio and Senator Ernest F. Hollings of South Carolina took a decidedly conservative position. The reason for the move to the left, undoubtedly, is that the Democratic activists who vote in the primaries are overwhelmingly liberal. "Only Jackson and Simon spout pure New Deal rhetoric," says Curtis B. Gans, a Washington political analyst, "but all the candidates are for government intervention to deal with social problems. There's not much left at the grass roots of the old conservative Democrat."

—*John M. Barry*

BRADY'S BUNCH OF REFORMS

Don't look for action from Washington this year on the surprisingly radical stock-trading reforms proposed by the Brady report. "Congress breaks for the conventions and it's out in October," says a lobbyist for a major brokerage firm. "It's hard to see it producing a major piece of securities legislation."

Last month's report by the presidential commission studying the stock-market crash, headed by Wall Street's Nicholas Brady, called for a major overhaul of trading procedures. Among them: imposing price limits on stocks to calm volatile markets and making one agency, perhaps the Federal Reserve, the regulator of both the stock and futures markets.



Let the Federal Reserve run the show, suggests Nicholas Brady.

WIDE WORLD

Action is likely next year, with the arrival of a new administration and Congress. Spurring the lawmakers is the specter of another crash, which is scaring money managers away from stocks. "The volatility is going to wreck the market," says James Owen, executive vice president of NWQ Investment Management Company.

—*Leah Nathans*

CHRISTMAS SALES OF MAJOR RETAILERS

	1987 (in millions)	1986 (in millions)	% Change
K mart	$4,137.0	$3,829.0	+ 8.0%
Sears, Roebuck	4,110.0	3,920.0	+ 4.9%
J.C. Penney	2,519.0	2,320.0	+ 8.6%
Wal-Mart	2,260.0	1,691.0	+34.0%
Dayton Hudson	1,990.0	1,670.0	+19.1%
May Department Stores	1,850.0	1,680.0	+10.0%
Federated Department Stores	1,572.5	1,483.6	+ 6.0%
Zayre Corporation	973.3	864.0	+12.7%
Montgomery Ward	757.7	718.9	+ 5.4%
F.W. Woolworth	687.0	625.0	+10.0%
The Limited	531.4	498.0	+ 7.0%

Source: *Reuters*

KUWAIT JUST BUYS AND BUYS

With the shares of British Petroleum down sharply in the wake of the market crash, the government of Kuwait began buying the company's stock in November and December, and has now accumulated a 16 percent stake in the giant oil company. Kuwait's move is far more than just an investment.

"The Kuwaitis want refineries and distribution facilities in Europe through which they can push Arab oil," says Philip Verleger Jr., an oil expert at the Institute for International Economics in Washington. He says that Kuwait may purchase more British Petroleum shares and then offer to swap them for some of the company's refining and distribution facilities in Europe. "If oil prices double in the next five or seven years, and that is very likely," says James E. Akins, a political consultant and former United States Ambassador to Saudi Arabia, "Kuwait will be in a powerful position to extract some very valuable assets from BP."

—*Lynn Adkins*

HARNESSING THE SUNSHINE

Last month, after three years of futile efforts in the computer business, American Telephone & Telegraph Company purchased 20 percent of the stock of Sun Microsystems, a California computer company. The $300 million investment will give Sun, a maker of engineering workstations, the muscle to crack the market for general-purpose office machines, currently dominated by International Business Machines Corporation. It also gives AT&T access to the technical know-how—and the profits—it never achieved in its own computer business.

Given the California firm's extraordinary growth after only six years in business, AT&T might be wise to emulate another big Sun investor, Eastman Kodak Company, and be a silent partner.

—*Paul Farhi*

EUROPE'S COMING AIR WARS

Travel-industry executives are predicting that the deregulation of Europe's airlines, which began on New Year's Day, will result in fare reductions, a wave of mergers and, eventually, the creation of a few mega-airlines.

Under the deregulation agreement, carriers are al-

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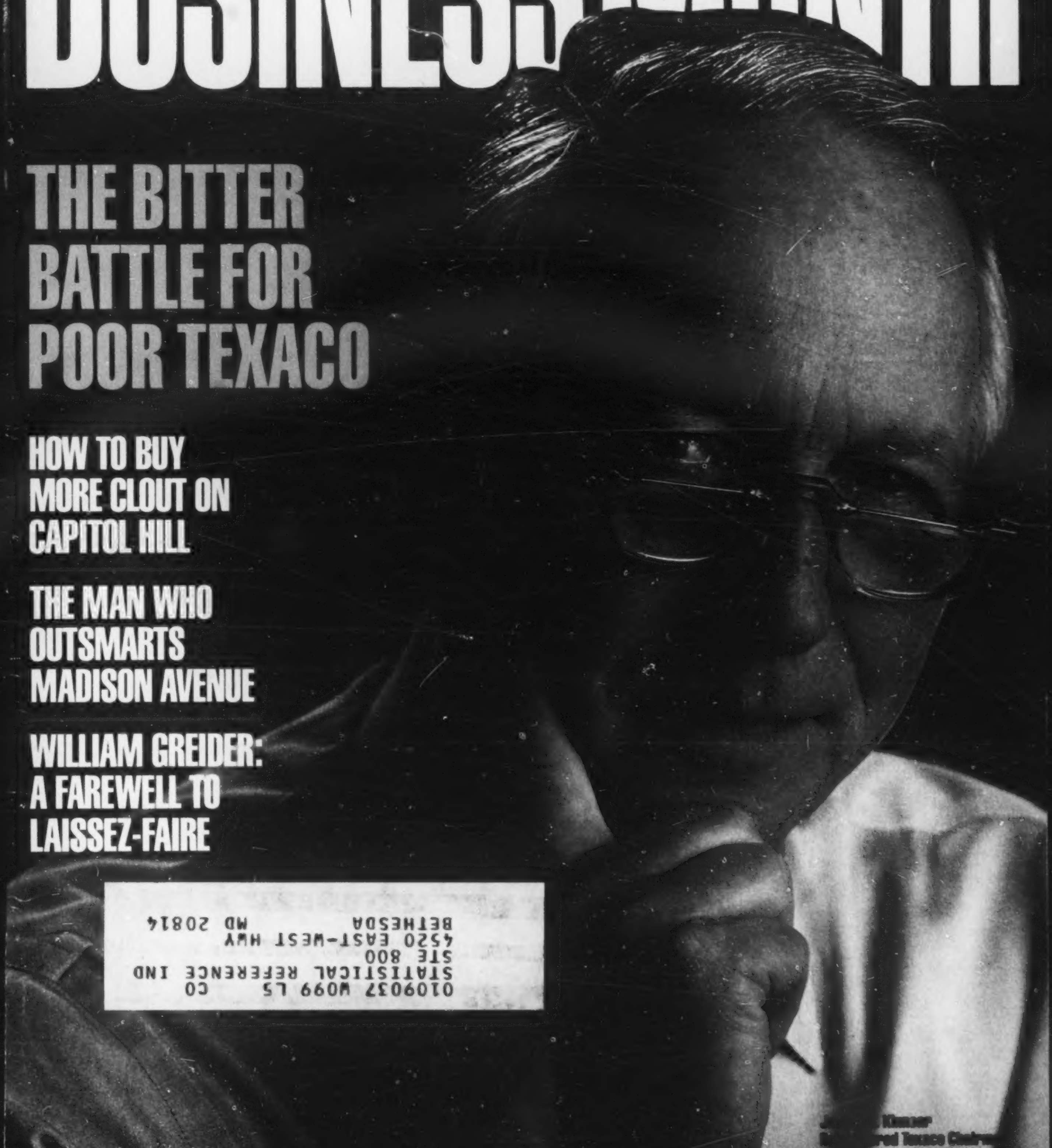

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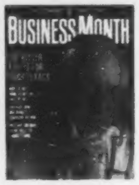

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COVER PHOTOGRAPH: ROB KINMONTH

LETTERS

ROSTOW'S VISION

Your good sense in recruiting the ideas of Walt W. Rostow for insight into the future ("Danger and Opportunity," January) was fine journalism and rewarding reading at a time of intense concern.

Rostow's leadership roles during the Kennedy-Johnson years has never been fully told. Having traveled with Rostow in 1968 during President Johnson's visit to Central America, I quickly recognized his enormous wisdom and sound judgment. Historians may remember that Rostow was LBJ's national security adviser and that he took his lumps because of the Vietnam war. Seeing the caliber of men who followed Rostow in the job, I have felt that the nation was the loser in his move from the center of policy to academe.

JOSEPH H. CARTER
Vice President
Office of Information Services
Cameron University
Lawton, Oklahoma

VERMONT DID IT FIRST

The item "Once More, California" (The Month in Perspective, February) says that the recent increase in the minimum wage in California is "the first at either the state or the federal level in seven years."

Not so. The Vermont Legislature increased the minimum wage by 10 cents in 1985 to become effective on July 1, 1986. The minimum wage went up by another dime last July 1 and will increase to $3.65 per hour this summer.

JAMES H. DOUGLAS
Secretary of State
Montpelier, Vermont

AN EXPLANATION

Having read Ben J. Wattenberg's article ("Their Deepest Concerns," January), I have to agree that American businesses are entirely into short-term planning. The reason, as I see it, is greed.

With the exorbitant salaries and bonuses that some CEOs are taking home, the trend of thought is that they must make a good showing for their stockholders. Otherwise, they will hold their positions only for a year or two.

RICHARD B. CAMMARANO
Milford, Connecticut

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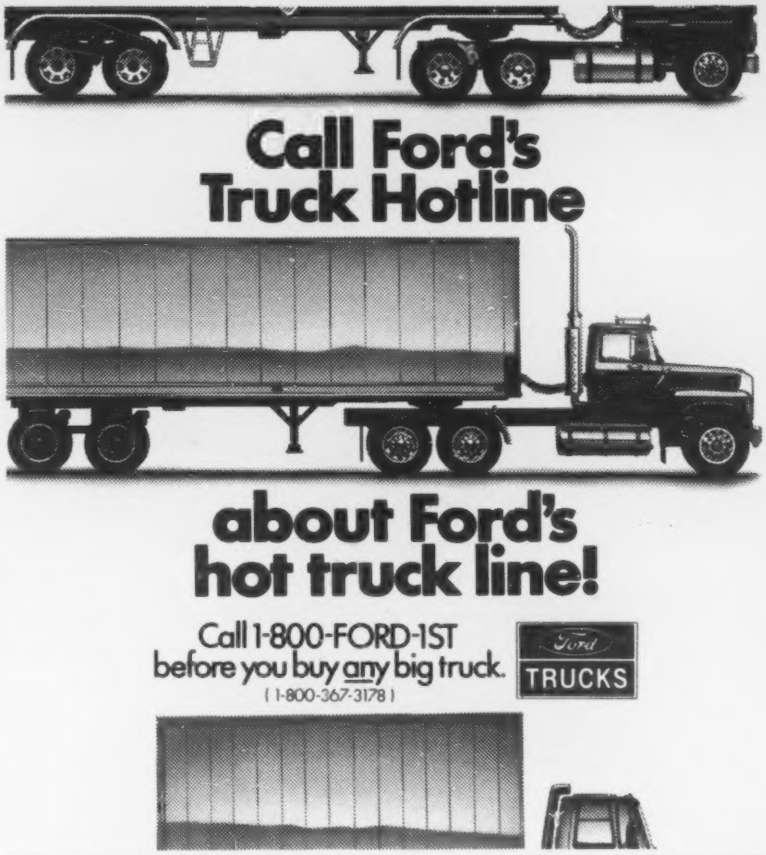
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Western hemisphere, and a major Dresser plant is only about 20 blocks away from the big Caterpillar Tractor plant in Peoria.

Even if Komatsu decides to produce in Peoria, analysts say, the American company is in a strong position. "Cat's product line is a generation ahead of Komatsu's," says Larry D. Hollis of Robert W. Baird & Company, a Milwaukee-based securities firm. Whether Komatsu produces in Japan or the United States, he says, "Cat now holds the enviable competitive position."

—L.A.

HOUSTON TRAILS IN THE SPACE RACE

At an average price of $122 per square foot, London has the most expensive Class A office space of a major city in Europe and North America, while Houston and Denver, at $12 per square foot, have the cheapest, according to a survey by the Office Network, a Houston-based research firm. The most expensive in the United States is Manhattan, at $40 a square foot.

Houston, not surprisingly, has the highest vacancy rate in North America, a whopping 31.8 percent, while Toronto is the tightest market at 8.4 percent. There has been a lot of speculation that New York's real-estate market will collapse in the wake of the Wall Street crash, but Stephen Marmion, president of the Office Network, says that "We don't see the vacancy rate rising to unmanageable levels."

—Laurel Brubaker Calkins

OFFICE RENTS IN MAJOR CITIES
(Europe and North America)

City	Rent Per Square Foot Class A building
London	$122.66
New York City (Manhattan)	40.00
Frankfurt	35.51
Boston	35.00
Vienna	34.39
Los Angeles	34.00
Toronto	33.86
Washington, D.C.	32.00
Miami	29.00
Chicago	28.95
Stamford	27.00
Munich	26.28
Hamburg	25.92
Amsterdam	25.80
Minneapolis	24.50
San Francisco	23.65
Philadelphia	22.10
Atlanta	21.38
Dallas	21.27
St. Louis	19.50
Kansas City	19.00
Pittsburgh	18.59
Cologne	17.76
Memphis	14.50
Houston	12.00
Denver	12.00

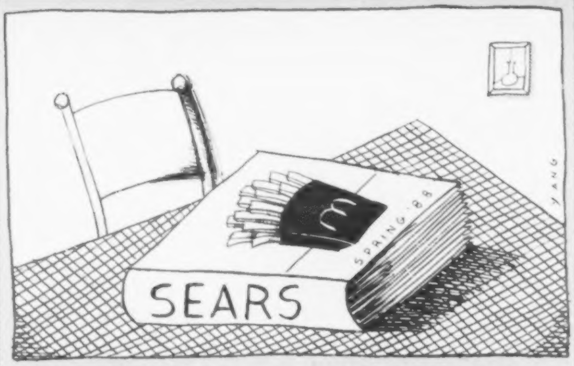
Source: The Office Network

HYUNDAI WOOS ITS OWN CUSTOMERS

To support its sharply rising American sales, South Korea's Hyundai Motor Company said last month that it would build a parts-distribution center—its fourth in the United States. "If we can't provide replacement parts on time, we risk losing repeat business," says Edward Kade, a Hyundai spokesman. Repeat business will be the key to Hyundai's success in the United States. With American small cars now competitively priced, Hyundai must find a way to hang on to its former customers if it is to continue to increase sales.

Last year, Hyundai's sales in the United States hit 263,610 units, up from 168,882 cars in 1986, the company's first year in the American market. This year Hyundai hopes to sell 300,000 automobiles. According to Arvid F. Jouppi, an analyst at Keane Securities Company, it has a good chance. "Early indications are that Hyundai buyers really like the car, are recommending it to their friends and are thinking of buying another Hyundai when their current one wears out," he says.

—L.A.



ONE-STOP SHOPPING

Sears, Roebuck and Company and McDonald's Corporation are discussing the idea of bringing the golden arches to Sears stores. From Sears' viewpoint, having the restaurant on the premises would keep shoppers in the store. A pilot McDonald's is already operating in a Sears store outside Pittsburgh.

McDonald's strategy goes deeper. According to Diane L. Mustain, an analyst with Duff & Phelps Inc., "McDonald's is finding it more and more difficult to come up with winning locations." The nation's number-one fast-food outfit has been experimenting with restaurants in such nontraditional places as hospitals and airports—and soon, perhaps, department stores.

—L.A.

SO THE PIPER WON'T GET PAID

A plan to alleviate the debt problems of the developing world, which was put forth last month by James D. Robinson 3d, chairman of American Express Company, has been greeted with a shrug by both the banks and the Reagan administration.

Robinson would create a new organization—backed by the governments of the primary lenders—to buy the mounting debt. But, says Robert G. Dederick, chief economist at Northern Trust Corporation and a former under secretary of commerce in the Reagan administration, "Governments, including this one, have been unwilling to put up the funds." With the World Bank and International Monetary Fund already in place, Dederick and others also question the need for a new organization. "The case-by-case approach being used has not been so unsuccessful that it creates a crying need for a new facility," he says.

—L.A.

IRWIN JACOBS'S NEW DIRECTION

Irwin Jacobs, the Minneapolis-based raider, used to inspire fear among the denizens of Wall Street. But now, after unsuccessful runs at such companies as Borg Warner and ITT, the fear has largely abated, to be replaced by puzzlement. What is this guy doing?

Jacobs has gone through a dizzying spate of maneuvers to enhance the value of his companies. Nearly two years ago, he packaged together Minstar

Fear of Irwin Jacobs has been replaced by a sense of puzzlement.

NO MORE WHITE SHOES

As the Big Eight branch out, they are competing like street vendors for corporate clients. You might wonder how objective their audits can be. Good question.

BY MARK STEVENS

In the summer of 1984, Joseph Connor and Michael Cook, managing partners of the Big Eight accounting firms Price Waterhouse and Deloitte Haskins & Sells, hatched a plan that startled their competitors and surprised their clients. In a move unprecedented for the behemoths of the certified public accounting profession, white-shoe Price Waterhouse and once-stodgy Deloitte Haskins & Sells announced their intention to combine their practices, creating the largest accounting firm in the world.

To Connor and Cook—the former a hard-nosed manager, the latter an aggressive fast-tracker who had just come to power—the idea was inspired. It would propel their firms to the front of the Big Eight pack in revenues, fees and clients. Long considered the world's most prestigious accounting firm, Price Waterhouse would back up its clout with capital.

Or so thought the two masterminds. Confident that the deal would be done, they dispatched senior members of their firms to work out the details of the merger—including the sharing of confidential marketing information—even before the full partnerships voted on the proposal. But they were in for a surprise. When the vote was tallied in December 1984, Price Waterhouse's partners in the United Kingdom turned thumbs down on Price Waterhouse Deloitte. Faced with this veto from a major component of PW's international practice, the deal died.

Although the scheme fizzled, the economic pressures that spawned it have not, which is why many accounting executives believe that the Big Eight is overdue for a consolidation wave that will forever change the face of the profession. "In the next three or four years, you'll see a spate of mergers that are likely to transform the Big Eight into a smaller group of giants," says Ken Solomon, partner in charge of the Chicago office of ninth-ranked Laventhol & Horwath. "After so many years of building a mystique around the term Big Eight, they'll have to change it to something like the Big Five or Big Three or even the Big Two."

> **THE MAJOR ACCOUNTING FIRMS ARE PAST DUE FOR A MERGER WAVE.**

The implications extend beyond the accounting firms to the corporate clients they serve. Should consolidation occur, limiting competition and concentrating power in the hands of a few enormous firms, fees will probably rise, quality may slump and long-standing client relationships will come unglued. What's more, the cultures that defined the firms for generations, cultures that clients have used as guideposts for hiring one firm over another, may be lost to homogenization.

Indeed, that transformation is already under way. More than a century after their founding—most as chartered accountants in the United Kingdom—the larger accounting firms have evolved into enormous professional-service organizations. While all of the Big Eight cling to their heritage as "certified public accountants," a close look reveals that they are no longer accounting firms at all. Much of their income and profits comes from corporations and government agencies, for work that can include managing hospitals, preparing airport feasibility studies and arranging corporate mergers and acquisitions. Name a white-collar service and chances are that the Big Eight provides it.

The Big Eight accountants have shed their green eyeshades and transformed themselves into management consultants. Touche Ross has done prison-reform studies for the Colorado Division of Correctional Services; Coopers & Lybrand installed management-information systems for the Indonesian railways; Price Waterhouse advised the U.S. Bureau of Indian Affairs on the delivery of services to Native Americans; Peat Marwick conducted a feasibility study for the midfield terminal at Atlanta's Hartsfield International Airport; and Deloitte Haskins & Sells helped the U.S. Comptroller of the Currency tighten its regulation of the banking system. "If you take a close look, you see that at the Big Eight, the audit is becoming incidental," says Alan Westheimer, a partner with Pannell Kerr Forster, the 14th-ranked accounting firm, and a former chairman of the professional services marketing committee for the Texas Society of CPAs. "These are accounting firms that

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Mark Stevens is the author of The Big Eight: An Inside View of America's Eight Most Powerful and Influential Accounting Firms *and* The Accounting Wars.

ILLUSTRATIONS BY DAVID SHANNON

are rapidly turning into consulting firms."

Why the change? How and why did the Big Eight transform themselves from bean counters to increasingly slick purveyors of everything that corporate America needs?

During the 1970s and early 1980s, three major trends converged to change the scope and the nature of Big Eight practice. First, as the firms grew dramatically in size (mostly by gobbling up smaller practices across the nation), they found themselves supporting much larger overheads—higher salaries, expense accounts and office rents. Managing partners scurried to find new sources of business.

Second, there was a sudden softening in the firms' traditional market—the annual audit of major American corporations. The Big Eight's feedlot for generations, major audits had been as dependable as annuities. When this year's audit of Ford, General Motors or General Electric was complete, next year's would begin, assuring the accountants of a steady flow of revenue. And because only a few of the largest firms were deemed large enough to tackle a corporate giant on the scale of General Motors (which requires the services of up to 1,000 Deloitte Haskins & Sells accountants), the Big Eight monopolized what for years was a highly lucrative market.

THE BANK WAS PAYING PEAT MARWICK $70,000 A YEAR. TOUCHE ROSS BID $25,000.

This changed, however, as corporations started to strip away years of postwar waste and inefficiency. Materials and equipment suppliers were the first to feel the pressure, followed by professional firms. Suddenly, long-term audit relationships were threatened. Corporate financial officers—many of them Big Eight alumni seeded to clients to perpetuate long-term relationships—began to regard the auditors as ordinary service vendors rather than as old-school ties. For example, Price Stern Sloan, a Los Angeles publishing firm with $45 million in assets, departed Seidman & Seidman/BDO after 15 years for Coopers & Lybrand. The key to winning clients had changed from whom you knew to how much you charged, and competitive bidding, once unheard of in the genteel world of corporate auditing, became commonplace. Clients that had retained a Price Waterhouse or an Arthur Young for generations were now inviting all of the giants to compete for the audit, with the prize going to the lowest bidder. Overnight, the audit had become a commodity.

Instead of holding out against penny-pinching clients—refusing, as would prominent surgeons or attorneys, to work for marginal fees—the accountants fought for the crumbs, and fees dropped even lower. Art Bowman, editor of an industry newsletter, cites the case of Landmark Bancorp, a La Habra, California, firm with $154 million in assets, which had been paying Peat Marwick $70,000 annually for seven years. After a new bid was thrown to the Big Eight, Touche Ross ran off with the contract—for $25,000.

"Much of the open warfare for clients in recent years has been waged on the basis of price and price alone," says Donald Tannenbaum, managing partner of 16th-ranked Spicer & Oppenheim. "To wrestle clients away from competitors, the Big Eight routinely offer multiyear fixed-rate deals, whereby they'll agree to do audits for, say, $20,000 a year for three years. In many cases, that's well below their costs. But they'll take the work, absorbing the loss as the price of gaining entry to a client. That kind of cutthroat pricing has put pressure on everyone's audit practice."

Predictably, it has also made a lot of accountants mad. "That we have price wars over this is really insane," says Alan Westheimer of Pannell Kerr Forster. "It gives a professional service as much prestige as a supermarket loss leader."

The accounting industry has also been shaken up by a 1978 decision by the American Institute of Certified Public Accountants to end its longtime ban on accounting firms soliciting or advertising for business. This move to laissez-faire competition, made under pressure from the Federal Trade Commission, unleashed aggressive marketing practices that have rendered once-secure client relationships vulnerable to attack from competing firms. "When I started in this profession," says Charles Kaiser Jr., managing partner of Pannell Kerr Forster, "if auditor A received a call from a potential client—claiming it was being poorly serviced by auditor B—firm A would place a courtesy call to firm B asking whether there was any reason that A shouldn't see the client. Today, auditor A would be at the prospect's office the next morning no matter what firm B thought. In fact, A might even call the client on spec, hoping to lure the business away from B. In the past, that was unheard of. This took some of the stability out of audit engagements."

Audits remain valuable because they give a firm a foot in the door for selling other services. Admitted into a client's inner sanctum, a large accounting firm can then offer a laundry list of such services as human-resource planning, organizing analysis and computer consulting. And it is here, in what is generically known as Management Advisory Services, that the firms see their futures.

"Our increasingly technical society constantly needs to measure things, to analyze things and to make purchase, merger and investment decisions based on these measurements," says Ray Groves, chairman of Ernst & Whinney. "With a diversified pool of talent—14,000 people in the United States alone—we are in a unique position to satisfy that demand."

On the credit side of the ledger, the Big Eight have discovered that by evolving from reviewers of a client's past performance to advisers on its future, they were greatly increasing their revenue opportunities. They have also found that becoming such an adviser means becoming a better marketer. The chief executive officer of a hotel chain, believing that any big accounting firm can audit his corporation's books as well as any other, will probably base the selection of an auditor on price alone. He will be of a different mind when it comes to choosing consultants for advice on the feasibility of a new resort in Atlantic City. With a quarter of a billion dollars on the line, he will be looking for the firm with the best experience in the lodging business—no matter what the charge.

The American Institute of Certified Public Accountants requires all firms with "CPA" on the letterhead to count only CPAs as partners. How then do the Big Eight maintain their prized imprimaturs as "Certified Public Accountants" when a growing percentage of their partners don't know a depreciation schedule from a railroad timetable? Simply by substituting "principal" for "partner," applying this title to those who are equal to the CPA partners in salary and bonuses but who don't have a license to practice accounting.

Even the firms themselves can be confused by this subterfuge. Asked whether Touche Ross makes a distinction between the types of professionals on its payroll, a former managing partner said: "Absolutely not. There are no second-class citizens here. We refer to our senior people as partners whether they are accountants or not." Advised that this violates the institute's rules, he paused. "I'll get back to you on that," he said, then called back moments later with a correction. "Only CPAs are partners. The others are principals. Disregard what I said before. I guess I wasn't aware of the rules."

Beyond the confusion, the expanding scope of practice raises serious issues. In their role as auditors, the firms are supposed to be independent of their clients, serving as watchdogs for the corporate and investment communities. In theory, at least, the auditor's signed opinion at the back of an annual report is based purely on impartial professional considerations.

The more deeply an accounting firm becomes enmeshed in a client's affairs, the harder it becomes to remain objective about the client's finances, no matter how honest and conscientious the auditor. "When a firm is performing every kind of auditing and consulting service for a major client—a corporation on the order of a General Motors, a Texaco or an IBM—it is earning tremendous fees from this relationship," says Steven Feldman, a former Arthur Andersen staff accountant and now president of Totsy Manufacturing in Holyoke, Massachusetts. "That's why there can be the suspicion—whether it's true or not—that management can sway the auditors to its point of view. With multimillion-dollar fees at stake, people are going to retain these suspicions."

This concerns Representative John Dingell, chairman of the House Subcommittee on Oversight and Investigations. "Independence is the one essential trait claimed by auditors that separates them from other professions," he said in a speech last year. "However, it is natural to ask how independent anybody can be when that person is hired, fired and paid by the people being audited. When I hear of lowball audit fees, of audits used as loss leaders to attract consulting business, that non-audit work is the wave of the future or that the top partners at major audit firms are management consultants, I frankly do not understand how that enhances the accounting profession's unique reputation for independent judgment as a public service."

More accountants are pushing for clearer rules to govern the delivery of consulting services to audit and non-audit clients. "I've said for years that I'd welcome participating in a panel charged with drawing the line on the scope of accounting-firm practice," says B.Z. Lee, special assistant to the chairman for Washington activities at the AICPA and a partner with 13th-ranked Seidman & Seidman/BDO. "But I've also said that I would participate only if the panel's recommendations would stick. So far, no one is prepared to accept that. Probably because no one is prepared to stop growing."

Instead, the majority opinion holds that the firms should accept the new growth and the big fees and let the bureaucrats worry about appearances. "Anyone who says we sacrifice our independence or our reputation just because we provide a wide range of services is looking for an issue," says a Big Eight audit partner who requested anonymity.

The exploding scope of practice is transforming the cultures of the firms themselves. Salesmanship, once a dirty word to accountants, is now critical to the management process and, in many cases, has become the fastest route to promotion and partnership.

When Arthur Young or Touche Ross or Price Waterhouse wins a new audit client (more than likely on the basis of a loss-leader fee), it uses that opening to bombard the client with sales pitches designed to develop business for the firm's full inventory of services.

The Big Eight's infatuation with salesmanship may hold some benefits for clients who want to be spoon-fed their services, but the story is different for those partners who have been around since salesmanship was something that accountants frowned on. Having chosen accounting because it was the least commercial, most introverted profession, they now must step out of the closet and, at a senior stage in their careers, transform themselves into supersalesmen. Partners who have never sold a client anything, but who have been valued for their technical proficiency, now find that they are relics of another age. "Technical competence is no longer enough to make it in this profession," says Charles Kaiser, managing partner of Pannell Kerr Forster. "Proficiency at your skill is a given, a minimum standard. Today you also have to bring in clients or service them well."

Until the early 1980s, the Big Eight were run like universities, with the senior partners enthroned in tenured positions that virtually guaranteed their jobs and their salaries. But as the firms traded in the old vision of themselves as scholarly fraternities for corporate-style meritocracy, Darwinian selection replaced seniority as the basis for rank and compensation.

"Just a few years ago, you could tell how much a partner was earning by asking how many years he'd been with a place," says Deloitte Haskins & Sells' chairman, Michael Cook, who is widely credited with breathing new life into the firm. "Like clockwork, he'd get a reliable increase ev-

HOW THE BIG EIGHT RATE

Don't be fooled by all those gray suits. The major accounting firms may look like clones from the outside, but they vary greatly in size, business emphasis and—most important—personality. Here is an unfettered view from inside.

Firm	Offices	1987 Worldwide Revenues	Sources of Revenues		Comments
1 Peat Marwick New York	600	$3.25 billion	Auditing and Accounting Tax Management Advisory Services	67% 21% 12%	Solid accounting practice with good management advisory services division. Rich in talented partners. Recently preoccupied with implementing a merger with the second-tier firm of Main Hurdman.
2 Arthur Andersen Chicago	226	2.3 billion	Auditing and Accounting Tax Management Advisory Services	43% 21% 36%	Very solid firm, but one with an arrogant mentality. Insists that you do it the Andersen way or not at all.
3 Ernst & Whinney Cleveland	421	1.78 billion	Auditing and Accounting Tax Management Advisory Services	51% 22% 27%	Typical Midwestern mentality. Favors nose-to-grindstone hard work over flashy marketing and promotion.
4 Price Waterhouse New York	400	1.75 billion	Auditing and Accounting Tax Management Advisory Services	58% 24% 18%	Stodgy and successful, it considers itself elite. It has the highest partner earnings in the Big Eight. Has some prestigious clients and retains a lingering white-shoe culture.
5 Arthur Young New York	93	1.70 billion	Auditing and Accounting Tax Management Advisory Services	58% 22% 20%	Top-rated auditors. It straddles the fence between commercial and professional ambitions, undecided as to which side it wants to sit on.
6 Coopers & Lybrand New York	550	1.65 billion	Auditing and Accounting Tax Management Advisory Services	58% 22% 20%	Highly aggressive, at the cutting edge of management advisory services. Generally regarded as having top-rated consultants on staff.
7 Deloitte Haskins & Sells New York	440	1.5 billion	Auditing and Accounting Tax Management Advisory Services	65% 19% 17%	Strong leadership, but some deadwood in the partnership ranks. Struggling to escape its stodgy past, and would benefit from an intra-Big Eight merger.
8 Touche Ross New York	490	1.45 billion	Auditing and Accounting Tax Management Advisory Services	55% 22% 23%	The firm's performance is improving under new leadership but is still uneven, with results better in major offices than in satellites. Aggressive in expanding management advisory services. It has an inferiority complex toward larger firms. Yearns to be larger and more prestigious.

(Source: Public Accounting Report)

ery year. Once he reached a certain level, those increases bore little relationship to performance. Today, if you want to know how much a partner earns, you have to ask about his current contribution to the firm. Performance is far more important than seniority."

Seidman's B.Z. Lee says much the same thing. "In the past, being made a partner was like gaining entry to the royal family," he says. "Once you made it, you were there until retirement. But things have changed. Today, if you don't perform, you can be excommunicated."

The downside of this emphasis on salesmanship is that it is gradually forcing out the fastidious CPAs who cross their t's and dot their i's. "The guys in charge of Big Eight audits today are very bottom-line oriented," says a senior partner with New York's Spicer & Oppenheim. "That's how they got their jobs. They'll do whatever is necessary to make a profit on the engagements. But they're caught in a cross fire. Because management has quoted lowball fees, making money on the job is impossible—impossible, that is, unless the firm cuts corners on the audit, limiting the scope of its review below prudent levels and crossing its fingers that everything will turn out all right. With people on the job more concerned with profits than with quality, the chance for serious errors and oversights is always great."

An October 1987 report by the National Commission on Fraudulent Financial Reporting supports this. The group, which was headed by James Treadway, former commissioner of the Securities and Exchange Commission, found that fee and budget pressures detract from audit quality and make it possible for fraud to slip by undetected. "Intense competition among accounting firms contributes to significant pressure on audit fees, often with corresponding pressure to reduce staff, time budgets and partner involvement in audit engagements," the report said.

The downgrading of technical gurus only increases the likelihood of sloppy and unreliable audits. "As the Big Eight cultures have turned increasingly businesslike, technical guys have found themselves falling from grace," says a retired Big Eight partner who keeps tabs on the firm through a network of former colleagues.

Kim Putman, editor of *Public Accounting Report*, a widely followed industry newsletter, has noticed the same thing. "Until recently, when accountants talked about their work, they referred to it as 'the profession,' " she says. "Today they call it 'the business.' " A matter of semantics? No, it's more than that. It reflects the transition to a corporate-style culture that is spreading throughout the Big Eight. ■

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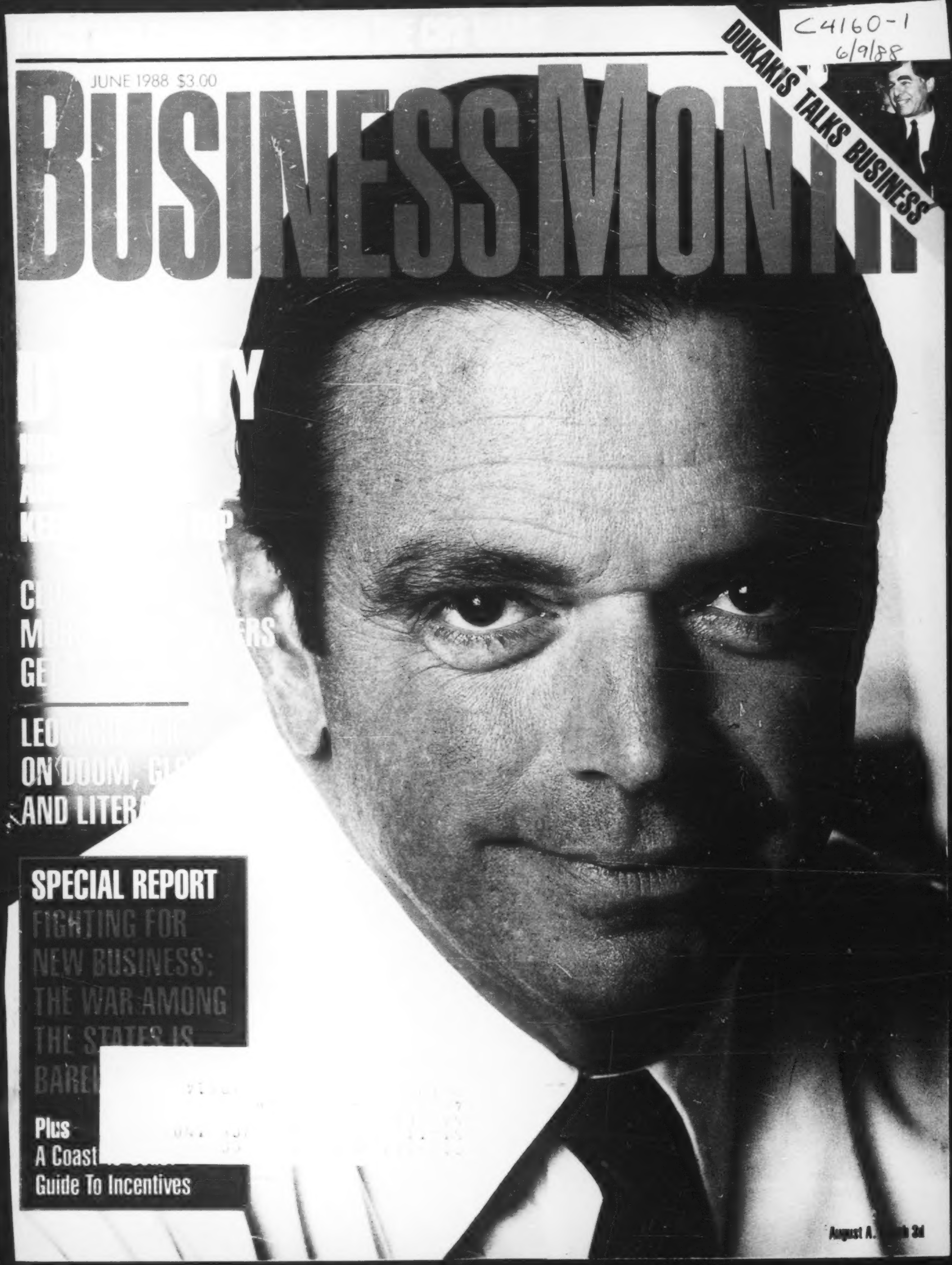

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COVER PHOTOGRAPH: MARIA ROBLEDO. DUKAKIS (INSET): JON SIMON/GAMMA-LIAISON

Favored Nations, Favored Firms

WHEN CONGRESS BEGAN considering the massive, 1,000-page trade bill last year, a legion of corporate lobbyists went to work crafting amendments to aid their clients. Despite arm-twisting help from friendly senators and representatives, few companies or business organizations got special treatment in the final bill passed by the Senate on April 27. Here are some that did:

☐ **Warner-Lambert Company.** Representative Butler C. Derrick, a Democrat from South Carolina, and Senator Frank R. Lautenberg, a Democrat from New Jersey, engineered an amendment that extends the drug company's patent on the heart drug "Lopid" for three and a half years. Warner-Lambert has a large manufacturing plant in Derrick's district, and its headquarters are in New Jersey.

☐ **Boeing Corporation and McDonnell Douglas Corporation.** They got a little help in their battles with Airbus Industrie of Europe from two Republican senators: Dan Evans of Washington and John C. Danforth of Missouri, in whose states the aerospace firms are based. Under the bill, it will be easier for those companies to win an anti-dumping or countervailing tariff case against foreign consortiums, such as Airbus.

☐ **The National Wool Growers Association.** It wasn't able to stop New Zealand and Australia from exporting lamb to the United States, but two Texas Democratic representatives, Charles W. Stenholm and E. "Kika" de la Garza, inserted a provision in the bill to study lamb imports—and perhaps slow them down.

☐ **Bishop, Cook, Purcell & Reynolds.** The Washington law firm won the prize for the most narrowly defined special-interest amendment when its lobbyist, Robert M. Bor, former chief counsel of the House Committee on Agriculture, got language inserted into the bill authorizing the Secretary of Agriculture to pay $500,000 in legal fees the firm had earned defending the National Corn Growers Association in a tariff case against its Canadian counterpart. Representative Edward R. Madigan, the ranking minority member on the Agriculture Committee, plowed the amendment through Congress. —*KEITH F. GIRARD*

The Special Gift Of Gordon Cain

When Gordon Cain bought his petrochemical plants, nobody wanted them.

WILL VAN OVERBEEK

LEST YOU THINK ALL IS bleak in Texas, consider the story of Gordon Cain, a 76-year-old, twice-retired entrepreneur who raised Cain Chemical from the ashes of the depressed petrochemical industry to the benefit of investors and employees alike. Last spring, with the help of Morgan Stanley and Chase Manhattan, Cain put together the largest leveraged buy-out in petrochemical history to acquire bits and pieces of seven plants that the major chemical companies had marked for closure.

Immediately upon taking control, Cain bundled his scattered holdings under a tight band of senior managers, most of whom were early retirees from other companies. He retained everyone from the level of plant manager down and gave them a stake in the enterprise's success through profit sharing and an employee stock-ownership plan. Within three months, Cain Chemical was operating at a profit, and in April, before the company was even a year old, giant Occidental Petroleum Corporation bought it for $1.25 billion in cash. Analysts put the total price, which includes some debt assumption and other considerations, at $2.2 billion. Chase Manhattan alone made a $120 million pretax gain on the deal. Each of Cain's employees received at least $100,000 for his share of the company. Some who had purchased additional stock became instant millionaires.

Now, about those ailing steel companies. . . .
—*LAUREL BRUBAKER CALKINS*

CEOs' CONTRIBUTIONS TO PRESIDENTIAL PRIMARIES

(As of March 8, 1988)

	BUSH	DOLE	DUKAKIS	JACKSON	GORE
Roger B. Smith General Motors	$1,000				
Lawrence G. Rawl Exxon		$1,000			
John F. Akers IBM	$1,000				
Allen E. Murray Mobil	$1,000	$1,000			
James W. Kinnear Texaco		$1,000			
George M. Keller Chevron	$1,000				
John F. Bookout Shell Oil	$1,000	$1,000			
Richard M. Morrow Amoco	$1,000	$500			
Armand Hammer Occidental Petroleum	$1,000				$1,000
John G. Smale Procter & Gamble	$1,000	$1,000			
Lodwrick M. Cook Atlantic Richfield	$750	$1,000			

Note: Maximum individual contribution to any one candidate or candidate's committee is $1,000 for the primaries and another $1,000 for the general election. These contributions were for the primary elections only. **Source**: Federal Election Commission

Sematech May Need Want Ads

TROUBLE IS BREWING in America's semiconductor paradise. Not only does Congress persist in trying to renege on its $100 million-a-year funding pledge for Sematech—the semiconductor industry's fledgling joint-re-

STATES FOR SALE

A COAST-TO-COAST GUIDE TO INCENTIVES

The hard sell is on. To compete in the industrial-site-selection sweepstakes, the states have had to keep beefing up their incentive packages. One of the more significant trends is the equal availability of these inducements to both out-of-state and in-state companies. Another is the states' increasing skill in packaging their own incentives with outside bank loans to fit the needs of individual companies. As the tables on the following pages show, incentives still vary widely from state to state. A rundown on the major categories:

DIRECT FINANCIAL INCENTIVES

INDUSTRIAL-DEVELOPMENT BONDS. For years, issuing municipal bonds to finance factories and office buildings has been the dominant form of assistance. Now, though, they are on the way out. Under the 1986 Tax Reform Act, 1989 is the last year in which these bonds will be tax-exempt. Counties and cities are already finding them a very tough sell to investors.

UMBRELLA BONDS. To help companies that are too small to qualify for individual revenue-bond programs, states often bundle several bond issues of $1 million or less into a single umbrella issue and distribute the proceeds as low-cost, long-term loans for the purchase of land, buildings and equipment.

STATE GRANTS. Although direct grants to companies are rare, a handful of states offer indirect or matching grants for specific projects, including research-and-development partnerships between companies and local universities, infrastructure improvements and incubator facilities to spawn new businesses.

CUSTOMIZED INDUSTRIAL TRAINING. Most states reimburse part or all of a company's costs for preemployment or on-the-job training of employees in special skills. Some states also help recruit skilled personnel and offer technical assistance in the form of specialized instructors and courses in community colleges or mobile classrooms.

MISCELLANEOUS FINANCIAL INCENTIVES. Individual states offer a variety of additional aids, including direct state loans, loan guarantees, venture capital and the deposit of state funds in banks that agree to provide low-cost loans to specific companies.

TAX BREAKS

Tax breaks are granted in the form of exemptions, deductions, credits and abatements. Among the most common:

- Goods in transit exempted from use tax or property tax.
- Business inventory, either raw materials or finished goods, exempted from property tax.
- Industrial machinery and equipment fully or partly exempted from sales and use taxes.
- Pollution-control equipment exempted from sales tax or property tax, or cost of equipment deductible from income-tax liability.
- Energy- and fuel-conservation measures exempted from sales tax or allowed tax credits.

Other special treatment includes tax credits for job creation and venture-capital investments, property-tax abatements on new buildings, exemptions from sales tax on industrial fuels and raw materials, and various forms of tax forgiveness for locating in enterprise zones (usually distressed areas in urban centers).

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STATES FOR SALE

INDUSTRIAL INCENTIVES

	DIRECT FINANCIAL INCENTIVES					BASIC
STATE	INDUSTRIAL-DEVELOPMENT BONDS	UMBRELLA BONDS	STATE GRANTS	CUSTOMIZED INDUSTRIAL TRAINING	OTHER INCENTIVES	CORPORATE INCOME TAX
ALABAMA Development Office State Capitol Montgomery, AL 36130 (205) 263-0048	Issued by cities and counties or their agencies	None	Ala. Industrial Devel. Authority makes grants to pay a portion of industrial-site improvement costs	Ala. Industrial Devel. Training Institute assumes all costs for preemployment training	Enterprise zones (the state may designate up to 25 in distressed regions)	5% (certain banks, building and loan associations and insurance companies are exempt)
ALASKA Dept. of Commerce and Economic Development Pouch D Juneau, AK 99811 (907) 465-2500	None	Available for capital projects and for companies involved in international trade	None	None	None	Taxed only on the portion of net income apportioned to the state
ARIZONA Dept. of Commerce 1700 W. Washington Street Phoenix, AZ 85007 (602) 255-5374	Cities and counties issue tax-exempt bonds for manufacturing industries	None	None	None	None	2.5% to 10.5% of net income
ARKANSAS Industrial Development Commission One State Capital Mall Little Rock, AR 72201 (501) 371-2052	Issued by counties and municipalities for land acquisition and development (up to 100% financing for land)	None	None	State agency sets up community job-training programs to meet industry's needs	Ark. Capital Corp. lends money to small businesses unable to obtain assistance from other sources	1% to 6%
CALIFORNIA Dept. of Commerce 1121 L Street, Suite 600 Sacramento, CA 95814 (916) 322-1394	Issued by cities and counties to finance land acquisition, building construction and equipment	None	None	Employment training panel provides job-training and job-placement services	Small-business and development loans; numerous assistance programs	9.3%
COLORADO Office of Business Development 1625 Broadway, Suite 1710 Denver, CO 80202 (303) 892-3840	Issued by local government to help corporations rehabilitate or locate facilities in the state	None	None	State-run program provides trained workers for new and expanding businesses	None	5%
CONNECTICUT Dept. of Economic Development 210 Washington Street Hartford, CT 06106 (203) 566-3787	Tax-exempt bonds available for new and expanding businesses	Tax-exempt financing for companies with projects too small to qualify for assistance under the revenue-bond program	None	Preemployment and on-the-job training for companies locating or expanding in the state	Urban investment extended to service firms that generate 10 or more new jobs and show a capacity to export; loan guarantees	11.5%
DELAWARE Development Office 99 Kings Highway, P.O. Box1401 Dover, DE 19903 (302) 736-4271	Issued by Econ. Devel. Authority to manufacturers, first-time farmers and 50k corporations	None	None	Del. Devel. Office administers a job-training program for new and expanding firms	None	8.7%
FLORIDA Dept. of Commerce 501-B Collins Building Tallahassee, FL 32301 (904) 488-6300	Issued by cities and counties to finance facilities	None	None	State provides employee training for new and expanding businesses	Black Business Investment Board; Econ. Devel. Transportation Fund; High-Tech, Innovation, Research and Devel. Fund	5.5%
GEORGIA Dept. of Industry and Trade 230 Peachtree Street, N.W. P.O. Box 1776 Atlanta, GA 30301 (404) 656-3556	Small-issue bonds issued by local industrial-revenue authorities	None	None	Dept. of Education provides preemployment and on-the-job training for new and expanding industrial firms	Private development-credit corporations give loans to firms that have been turned down by other financial institutions	6%
HAWAII Dept. of Business and Economic Development Honolulu, HI 96813 (808) 548-3033	Special-purpose bonds provide low-interest financing for small industrial businesses	None	None	Special programs are available to train workers for new industries locating in Hawaii	None	4.4% on income up to $25,000; 5.4% up to $100,000; 6.4% on income exceeding $100,000
IDAHO Dept. of Commerce Statehouse, Room 108 Boise, ID 83720 (208) 334-3416	Cities and counties issue bonds with terms up to 40 years	None	None	New Industry Training Pgrm. provides training for new and expanding industries	None	8%
ILLINOIS Dept. of Commerce and Community Affairs 620 E. Adams Street Springfield, IL 62701 (217) 782-7500	Tax-exempt bonds are issued by the Illinois Devel. Finance Authority to create jobs	Illinois Devel. Finance Authority offers a pooled-bond program for small businesses	None	State gives grants to cover a portion of salaries of workers being trained	Development-assistance fund; direct loan program; agribusiness bond program; innovation research grants	4%
INDIANA Dept. of Commerce One North Capitol, Suite 700 Indianapolis, IN 46204 (317) 232-8800	Issued by the Indiana Agricultural Devel. Corp. for certain agricultural purposes	None	None	Training-for-Profit program offers tailored training at little or no cost	Loan guarantees; infrastructure fund; venture-capital corporation; industrial retraining	3.4%
IOWA Dept. of Economic Development 200 E. Grand Avenue Des Moines, IA 50309 (515) 281-3251	Cities and counties provide tax-exempt financing for land, buildings, improvements and equipment	Iowa Finance Authority Bond Bank Program provides financing to qualifying local businesses of all sizes	Community Econ. Betterment Account may be used to cover costs of projects that generate new jobs	Industries in interstate commerce eligible for Iowa Indus. New Jobs Training Pgrm. and Small Business New Jobs Training Pgrm.	Private credit corporation	6% to 12%
KANSAS Dept. of Commerce 400 S.W. 8th Street Capitol Towers, Suite 500 Topeka, KS 66603 (913) 296-3481	Issued by cities and counties for a variety of economic purposes	None	Block-grant funds help communities attract new industry and expand local businesses	None	Risk capital; venture capital; seed capital, research grants; tax-increment financing	4.5%

1988: WHERE THE DEALS ARE

	BUSINESS TAXES		TAX EXEMPTIONS FOR COMPANIES					
	SALES AND USE TAXES	PROPERTY TAX	FOR GOODS IN TRANSIT	FOR BUSINESS INVENTORY	FOR INDUSTRIAL MACHINERY AND EQUIPMENT	FOR POLLUTION-CONTROL EQUIPMENT	FOR ENERGY AND FUEL CONSERVATION	OTHER TAX BREAKS
	4%	0.0065%; industrial property generally assessed at 20%	Exempt for up to three years before shipment out of state	Manufactured articles are exempt for one year after production	Exempt from sales and use taxes	Exempt from sales tax, use tax and property tax	No sales and use taxes on fuel used in manufacturing	Property-tax abatement to certain industries for up to 10 years
	None	Real property taxed by cities and boroughs	Exempt from property tax	None	None	None	None	Up to 1% of federal income tax on investment in depreciable property may be applied to state corporate income tax
	Sales tax is 4% of gross income for most industries	Most commercial and industrial property assessed at 25% of full market value	Exempt	Exempt	Exempt from sales tax	Cost of equipment is amortized over 60 days and deducted from gross income on state corporate income tax	Costs taken as a deduction against gross income or as a credit against tax liability	None
	4% sales tax on most retail sales and some services	None	Some transportation equipment exempt from use tax	None	Exempt from sales and use taxes	Exempt from sales and use taxes	None	Industrial fuels and raw materials exempt from sales tax
	4.75%	Real property taxed at 1.1% of full cash value	None	Exempt from property tax	Exemptions for specific machinery used out of state	Deductible from net taxable income	None	Industrial fuels and raw materials exempt from sales and use taxes; targeted-jobs tax credit
	3%	Most property is taxed	None	None	Up to $500,000 a year worth of machinery and equipment used exclusively for manufacturing is exempt	Any increase in value of building attributed to energy costs is excluded in determining actual value	None	Industrial fuels and raw materials exempt from sales and use taxes; deduction for subsidized employee transportation
	7.5%	Most real and tangible property is taxed	Exemptions for some motor vehicles and watercraft	Average monthly inventories of manufacturers and wholesale and retail businesses are exempt from property tax	Exempt from sales and use taxes	Exempt from sales and use taxes	Exempt	Jobs-creation tax credit
	No sales tax; business-license and use taxes are levied on personal-propery leases	Real estate is subject to county property taxes and, if located within an incorporated area, to municipal property taxes	Goods sold out of state by a wholesaler with no Delaware outlet are exempt from the gross-receipts tax	None	Exempt	None	None	Investment tax credit
	5%	Real and tangible property is taxed, unless specifically exempted	Exempt from the property tax for up to 180 days	Exempt from property tax	Variety of machinery items have specific exemptions from the sales and use taxes	Exempt from sales and use taxes	Assessed at salvage value rather than fair market value, thus reducing the taxable value	Industrial fuels and raw materials exempt from sales tax, goods for export exempt from sales and use taxes
	3%	Assessed at 40% of fair market value; tax rate varies among counties from 0.5% to 1.5% of the value of the property	Local taxing jurisdictions may exempt business inventories in transit from the property tax	Local taxing jurisdictions can exempt from property tax raw materials, goods in process and finished goods	Exempt from sales and use taxes	None	Solar-energy equipment exempt from property tax	None
	Most manufactured products for export out of state are exempt	Assessed at 100% of fair market value; taxes vary from 0.6% to 1%, depending upon type of property	Agricultural commodities, tobacco products and liquor to carriers engaged in interstate or foreign commerce are exempt	None	Exempt from sales tax	State exempts gross proceeds from sales of gasohol for use or consumption if derived from biomass	No sales tax on air-pollution facilities	Industrial fuels and raw materials exempt from excise tax
	5%	Nonexempt real and tangible property are assessed at market value	Exempt	Exempt	Some machinery items are exempt	Exempt from sales and use taxes	Nonpatented mining claims are exempt from property tax	Industrial fuels and raw materials exempt from sales and use taxes
	5%	Personal property is exempt; real property is assessed at 33.3% of actual value	None	None	None	Exempt from sales and use taxes	Exempt from sales and use taxes	Income-tax credits; property-tax abatement
	5%	Property is assessed at 33.3% of true cash value	Exempt from property tax	None	Transportation and manufacturing machinery is exempt	Exempt from sales and use taxes	Energy-conservation systems may qualify for a credit of 25% of the cost of installation or up to $10,000, whichever is less	Industrial fuels and raw materials exempt from sales and use taxes; property-tax abatement; innovation tax credit
	4%	All property is taxed by the state, cities, counties and school districts	None	Exempt from tax on personal property	A valuation limit of 30% of acquisition costs for all machinery	Exempt from property tax	Federal alcohol tax credit may be deducted from gross income on state income tax	Industrial fuels and raw materials exempt from sales tax; R&D tax credit
	4%	Real and tangible personal property is taxed by cities, counties and special taxing districts	Kansas Freeport Law provides property-tax relief to interstate businesses until January 1, 1989	None	Exempt if the business qualifies for job and investment tax credits and is within a state-designated enterprise zone	None	None	R&D tax credit; venture capital; investment tax credit; raw materials exempt from sales tax; job-creation tax credit

SOURCE: AREA DEVELOPMENT MAGAZINE, JANUARY 1988

STATE	DIRECT FINANCIAL INCENTIVES					BASIC
	INDUSTRIAL-DEVELOPMENT BONDS	UMBRELLA BONDS	STATE GRANTS	CUSTOMIZED INDUSTRIAL TRAINING	OTHER INCENTIVES	CORPORATE INCOME TAX
KENTUCKY Commerce Cabinet Capital Plaza Tower Frankfort, KY 40601 (502) 564-7670	Tax-exempt financing is available to private businesses	Ky. Devel. Finance Authority combines financing of small projects into composite bond issues	None	Bluegrass State Skills Corp. conducts job training	Direct state loans	3% to 7.25%
LOUISIANA Dept. of Commerce P.O. Box 94185 Baton Rouge, LA 70804-9185 (504) 342-5361	County and municipal tax-exempt financing for businesses moving to or expanding in the state	None	None	Office of Commerce and Industry trains prospective employees of new and expanding companies	Direct state loans; general-obligation bonds	4% to 8%
MAINE State Development Office State House, Station 59 Augusta, ME 04333 (207) 289-2656	Finance Authority and municipalities issue bonds for tax-exempt financing of private business	Tax-exempt bonds aid small projects that might not qualify for other financing	None	None	Bond and loan guarantees; venture-capital corporations	3.5% to 8.93%
MARYLAND Dept. of Economic and Employment Development 45 Calvert Street Annapolis, MD 21401 (301) 974-3514	Md. Industrial Devel. Authority aids purchase of land, machinery, equipment and buildings	None	None	Tailored training and employee-recruitment services for businesses starting or expanding in the state	Surety bond guarantees; loan guarantees; franchise-investment program; direct state loans	7%
MASSACHUSETTS Dept. of Commerce and Development–MODB Leverett Saltonstall Building 100 Cambridge Street Boston, MA 02202 (617) 727-3221	Mass. Industrial Finance Agency's tax-exempt and taxable bonds aid job creation by private business	None	None	Bay State Skills Corp. provides training programs for high-demand jobs and emerging technology	Venture capital and capital-resource corporations; privately sponsored development-credit corporation	Personal property taxed at $2.60 per $1,000, plus 9.5% of taxable net income
MICHIGAN Dept. of Commerce P.O. Box 30225 Lansing, MI 48909 (517) 373-4600	Issued at the state level by the Michigan Strategic Fund	None	Center for Product Devel. provides grants in return for royalties from sales of the new product	Mich. Business and Industrial Training Program provides training for new and expanding businesses	Direct state loans; venture-capital corporation; financial-incentive agency; economic-development corporations	2.35%
MINNESOTA Dept. of Trade and Economic Development 150 East Kellogg Boulevard St. Paul, MN 55101 (612) 296-6424	None	None	None	None	Direct state loans; Opportunities Minnesota Incorporated Board gives subordinated loans to small businesses	9.5%
MISSISSIPPI Dept. of Economic Development P.O. Box 849, 1200 Walter Siller Building Jackson, MS 38205 (601) 359-2449	Certified Devel. Co. of Mississippi issues tax-exempt bonds to finance fixed-asset expenses and costs of industrial development	None	None	Dept. of Vocational and Technical Education offers preemployment and on-the-job training	None	First $5,000 in taxable income is taxed at 3%
MISSOURI Dept. of Economic Development P.O. Box 118 Jefferson City, MO 65102 (314) 751-4241	Low-interest financing for projects that help the environment and encourage development of alternative-energy sources	Missouri Industrial Devel. Board pools various industrial-development bonds	None	Program helps new and expanding businesses recruit, test, train and retrain workers	Direct state loans	5%
MONTANA Dept. of Commerce Capitol Station 1424 9th Avenue Helena, MT 59620 (406) 444-3494	Montana Econ. Devel. Board issues bonds for state borrowers	Available to retailers, wholesalers and private-sector businesses for most real-estate development projects	None	Broad-based job-training program for employees of new or expanding businesses	Venture-capital corporation; development-credit corporations	6.75%
NEBRASKA Dept. of Economic Development P.O. Box 94666 Lincoln, NE 68509 (402) 471-3111	Nebraska Investment Finance Authority invests private capital with an emphasis on blighted areas	Issued by Nebraska Investment Finance Authority	None	Program offers comprehensive preemployment training for new and expanding businesses	Venture capital; applied-research fund; privately sponsored development-credit corporations	4.75%
NEVADA Commission on Economic Development Capital Complex Carson City, NV 89710 (702) 885-4325	Dept. of Commerce issues tax-exempt bonds to provide low-interest financing for eligible businesses	None	None	The state assists new and expanding businesses in training new and potential employees	Direct state loans	None
NEW HAMPSHIRE Dept. of Resources and Economic Development 105 Loudon Road, Building 2 Concord, NH 03301 (603) 271-2591	N.H. Indus. Devel. Authority issues bonds to help businesses purchase buildings and land and construct and equip facilities	None	None	None	Privately sponsored development-credit corporation	8%
NEW JERSEY Dept. of Commerce and Economic Development One West State Street CN-824 Trenton, NJ 08625 (609) 292-2423	N.J. Econ. Devel. Authority issues tax-exempt bonds to manufacturers for fixed-asset financing and land acquisition	None	None	Office of Customized Training provides assistance to employers in recruiting and training workers	Loan guarantees; direct state loans	9%
NEW MEXICO Economic Development and Tourism Dept. Joseph M. Montoya Building 1100 St. Francis Drive Santa Fe, NM 87503 (505) 827-0272	Issued by cities and counties to finance acquisition of land, buildings, equipment and machinery	None	None	In-plant program gives grants to new and expanding manufacturers equal to half the wages of employees for entry-level training	None	4.8%
NEW YORK Dept. of Economic Development One Commerce Plaza Albany, NY 12245 (518) 474-4100	N.Y. State Urban Devel. Corp. provides low-cost financing through taxable and tax-exempt bonds	N.Y. Job Devel. Authority finances up to 40% of cost constructing, buying and rehabilitating industrial plants	None	State Training and Manpower Program reimburses employers for approved hiring and training of economically distressed workers	Venture-capital corporations; direct state loans; privately sponsored development-credit corporations	9%
NORTH CAROLINA Dept. of Commerce 430 N. Salisbury Street Raleigh, NC 26611 (919) 733-4151	Counties establish authorities to issue bonds that finance private research laboratories and industrial facilities	None	Incubator Facilities Program gives one-time grants to small businesses for establishing low-rent, shared-services facilities	N.C. Training Program provides industry with customized training	Industrial-development fund	7%

BUSINESS TAXES

TAX EXEMPTIONS FOR COMPANIES

	SALES AND USE TAXES	PROPERTY TAX	FOR GOODS IN TRANSIT	FOR BUSINESS INVENTORY	FOR INDUSTRIAL MACHINERY AND EQUIPMENT	FOR POLLUTION-CONTROL EQUIPMENT	FOR ENERGY AND FUEL CONSERVATION	OTHER TAX BREAKS
	5%	State and local property taxes on most real and tangible personal property	Exempt from sales and use taxes	None	Exempt from sales and use taxes	Exempt from sales and use taxes	None	Industrial fuels and raw materials exempt from sales and use taxes
	4%	Land assessed at 10% of market value, business property at 15%	Exempt from property tax	None	None	None	Exempt from sales and use taxes	Tax equalization; property-tax abatment; job-creation tax credit
	5%	Real and tangible personal property, unless specifically exempted, is taxed	Exempt from property tax	Exempt from property tax	Exempt from sales and use taxes	Certified water- and air-pollution control facilities are exempt from property tax	None	Industrial fuels and raw materials exempt from sales and use taxes; mining property not taxed for 10 years; tax credits for R&D
	5%	Personal property is exempt	Exempt from use tax	Exempt from property tax	Certain items are exempt	Exempt from sales and use taxes	Wood products for heating are exempt	R&D tax credit; property-tax abatement; industrial fuels and raw materials exempt from sales and use taxes
	5%	Real-property tax rates range from $14 to $30 per $1,000 of value	Exempt from sales and use taxes	Exempt from tax on real property	Exempt from sales and use taxes	Cost of certified pollution-control facilities may be deducted from net income on corporate income tax	Cost of solar- and wind-powered devices may be deducted from net income in determining excise tax	Industrial fuels and raw materials exempt from sales and use taxes; property-tax abatement; investment tax credit; R&D tax credit
	4%	Real and personal property is taxed	Exempt from personal-property tax	Exempt from property tax	Exempt from sales and use taxes	Exempt	None	Industrial fuels and raw materials exempt from sales and use taxes; property-tax abatement
	4%	Local governments tax all real property that is not specifically exempted	None	None	None	None	None	R&D tax credit; enterprise-zone program; property-tax exemptions
	1% to 3%	All real and personal property, unless specifically exempted, is taxed	Exempt from property tax	Exempt from property tax	Depreciation of exhaustion of business property is deductible from corporate gross income tax	Cost of certified air-, noise- and water-pollution control facilities is deductible from gross income over five years	None	Industrial fuels and raw materials exempt from sales and use taxes; property-tax abatement
	4.225%	Real and tangible personal property is taxed	None	None	Some machinery is exempt	Exempt from sales and use taxes	None	Industrial fuels and raw materials exempt from sales and use taxes; property-tax abatement
	None	All property is taxed	Exempt from property tax	Exempt from property tax	None	Air- and water-pollution control equipment is taxed at 3%	Investments in buildings for energy conservation from gross corporate income	Investment tax credit; property-tax abatement; job-creation tax credit
	4%	All property is assessed at actual value	Exempt from sales and use taxes	Exempt from property tax	Exempt from sales and use taxes	Exempt from sales and use taxes	Credit against corporate income tax is available for qualifying alternative-energy systems	Industrial fuels and raw materials exempt from sales tax; investment tax credit
	5.75%	Property is assessed at 35% taxable value	Exempt from property tax	Exempt from property tax	Exempt from property tax	Exempt from property tax	None	Freeport law; sales for resale exempt from sales and use taxes
	None	All real property is taxed	None	Exempt from property tax	Exempt from property tax	Exempt for 25 years	Exempt from property tax	Property-tax abatement
	6%	Real and tangible property, unless specifically exempted, is taxed	Exempt from property tax	Exempt from property tax	Exempt from sales and use taxes	Exempt from property tax	Exempt	Property-tax abatement; property used for R&D exempt from sales tax
	2.5%	Real and tangible property is taxed at the local level; all property is assessed at 33.3% of market value	Exempt	None	Credit against gross-receipts tax	Credit against gross-receipts tax	None	Industrial fuels and raw materials deductible in determining gross-receipts tax
	4% (4.25% in New York City)	Taxed at the local level	None	None	Exempt from sales and use taxes	Exempt from tax on real property	Exempt for up to 15 years	R&D tax credit; investment tax credit; property-tax abatement; exemptions for construction in areas of New York City
	1%	None	None	None	None	None	None	None

STATES FOR SALE

STATE	DIRECT FINANCIAL INCENTIVES					BASIC
	INDUSTRIAL-DEVELOPMENT BONDS	UMBRELLA BONDS	STATE GRANTS	CUSTOMIZED INDUSTRIAL TRAINING	OTHER INCENTIVES	CORPORATE INCOME TAX
NORTH DAKOTA Economic Development Commission Liberty Memorial Building Bismarck, ND 58505 (701) 224-2810	Cities and counties issue tax-exempt bonds to finance acquisition of land, buildings and equipment	None	None	Specialized program custom-trains workers for the specific needs of new and expanding industries	None	Excise tax on corporations doing business in the state is levied against the portion of net income allocated to the state
OHIO Dept. of Development P.O. Box 1001 Columbus, OH 43266 (614) 466-3379	State issues tax-exempt bonds to provide lower-cost financing to private companies relocating or expanding facilities	None	Thomas Edison Program initiates cooperative R&D between industry and universities	Ohio Industrial Training Program provides financial and technical assistance to small companies for employee training	Direct state loans	.0582% on the corporation's net worth; or 5.1% tax on the first $25,000 of net income and 2% on the income over $25,000
OKLAHOMA Dept. of Commerce 6601 Broadway Extension Oklahoma City, OK 73116 (405) 843-9770	Local governments establish trusts and authorities to issue bonds for manufacturing projects and pollution-control facilities	None	None	Business Devel. Division provides free employee training to firms locating or expanding operations	Direct state loans; venture capital	5%
OREGON Economic Development Dept. 595 Cottage Street, N.E. Salem, OR 97310 (503) 373-1200	Oregon Econ. Devel. Commission approves tax-exempt bonds to new and expanding businesses	Commission issues tax-exempt pooled umbrella development bonds to provide loans to smaller new and expanding businesses	Oregon Resource and Tech. Devel. Corp. fosters innovation in existing and new industry	None	Direct state loans	6.6%
PENNSYLVANIA Governor's Response Team 493 Forum Building Harrisburg, PA 17120 (717) 787-8199	Financing for projects approved through Revenue Bond and Mortgage Pgm. is secured from private-sector sources	None	Ben Franklin Partnership links state, private and educational resources to foster development	Program provides funds to train employees to meet individual employers' needs	Direct state loans	8.5%
RHODE ISLAND Dept. of Economic Development 7 Jackson Walkway Providence, RI 02903 (401) 277-2601	Issued by R.I. Port Authority and Econ. Devel. Corp. for industrial and commercial projects	None	R.I. Municipal Devel. Fund provides matching grants to companies to help finance infrastructure needs	Job Devel. and Training Program contracts directly with employers to provide on-the-job and classroom training	Direct state loans	8%
SOUTH CAROLINA State Development Board P.O. Box 927 Columbia, SC 29202 (803) 737-0400	Issued by cities and counties	S.C. Jobs Econ. Devel. Authority composite-investment program obtains low-cost funds for small businesses	None	Special Schools Program provides tailored preemployment and on-the-job training to new and expanding businesses	Direct state loans; privately sponsored development-credit corporations	5%
SOUTH DAKOTA Dept. of State Development Capital Lake Plaza, Box 6000 Pierre, SD 57501 (605) 773-5032	County and municipal bonds for pollution control and some other services	None	None	Training for private employees is available through Dept. of State Devel.	None	None
TENNESSEE Dept. of Economic and Community Development 320 6th Avenue, North Nashville, TN 37219 (615) 741-1888	Municipal tax-exempt bonds for financing of private businesses locating or expanding in the state	None	None	Service Preemployment Program builds skills of prospective employees of new and expanding industries	General obligation bonds	6%
TEXAS Dept. of Commerce Capital Station, Box 12728 Austin, TX 78711 (512) 472-5059	Local government can set up nonprofit industrial-development corporations	None	None	Industrial Devel. Dept. provides training for companies locating or expanding in the state	Direct state loans	None
UTAH Dept. of Community and Economic Development Room 6150, State Office Building Salt Lake City, UT 84114 (801) 538-3033	Municipalities and counties issue bonds on behalf of private companies	None	None	None	None	5% of net income or $100, whichever is greater
VERMONT Agency of Development and Community Affairs 109 State Street Montpelier, VT 05602 (802) 828-3211	Vt. Industrial Devel. Authority helps fund plants eligible for tax-exempt financing under federal rules	None	None	Promotes expansion and job creation by training employees for new and expanding industries	Direct state loans	6%
VIRGINIA Dept. of Economic Development 1000 Washington Building Richmond, VA 23219 (804) 786-3791	Va. Small Business Financing Authority gives entrepreneurs tax-exempt private-activity bonds	None	None	Meets specific company needs with preemployment training, on-the-job training and some types of retraining	None	6%
WASHINGTON Dept. of Trade and Economic Development 101 General Administration Building Olympia, WA 98504 (206) 753-3065	None	Pools requests for financing into one bond issue, spreading the costs of issuing the bonds among borrowers	Community Econ. Revitalization Board finances public-infrastructure improvements for private-sector development	Job Skills Program provides matching grants to support short-term, job-specific training for local businesses	Industrial-revenue bonds	None
WEST VIRGINIA State Tax Dept. State Capitol Complex Charleston, WV 25305 (304) 348-2501	State issues low-interest, tax-exempt industrial-revenue bonds under IRS regulations	None	None	Offers tailored industry training for new and expanding manufacturing firms in the state	Direct state loans	7.875%
WISCONSIN Dept. of Development 123 W. Washington Avenue P.O. Box 7970 Madison, WI 53707 (608) 266-1018	Cities, villages and municipalities issue bonds for a variety of projects	None	Tech. Devel. Fund gives grants to foster cooperation between business and universities in new-product R&D	Quick-Start Training Program for new and expanding businesses trains and retrains workers to provide skilled labor	Venture-capital corporations	7.9%
WYOMING Economic Development and Stabilization Board Herschler Building Cheyenne, WY 82002 (307) 777-7284	Issued by cities and counties to provide tax-exempt financing to promote economic growth and to create jobs for residents	Wyo. Community Devel. Authority pools issues to give small companies access to public financing	None	None	Loans and guarantees	None

	BUSINESS TAXES		TAX EXEMPTIONS FOR COMPANIES					
	SALES AND USE TAXES	PROPERTY TAX	FOR GOODS IN TRANSIT	FOR BUSINESS INVENTORY	FOR INDUSTRIAL MACHINERY AND EQUIPMENT	FOR POLLUTION-CONTROL EQUIPMENT	FOR ENERGY AND FUEL CONSERVATION	OTHER TAX BREAKS
	5.5%	Real property and certain intangible property is taxed	Exempt from property tax	Exempt from property tax	None	None	Exempt from property tax	Industrial fuels and raw materials exempt from sales and use taxes; job-investment tax credit
	5%	Real property assessed at 35% of true value; personal property assessed at 30% in 1988; rate will decrease until 1993	Exempt from sales and use taxes	None	Exempt from sales and use taxes	Exempt from sales, use and property taxes	Exempt from sales, use and property taxes	Property-tax abatement; investment tax credit; job-creation tax credit
	4%	No state tax	Exempt from sales and use taxes	None	Exempt from sales and use taxes	Up to 20% of cost of installing pollution-control facilities can be credited against corporate income tax	Exempt from sales and use taxes	Technology tax credit; venture-capital tax credit; job-creation tax credit; property-tax abatement
	None	Real and tangible property is subject to local tax	Exempt from property tax	Exempt from property tax	None	Tax credits up to 50% of cost of facilities	Credited against corporate income tax for up to five years	None
	6%	Tax on real property—land and buildings—is levied at the local level	Exempt from tax on personal property	Exempt from property tax	Exempt from sales, use and property taxes	Exempt from sales and use taxes	None	Fuels and raw materials exempt from sales and use taxes; property-tax abatement; property for new-product R&D not taxed
	6%	Real and personal property is subject to local property tax	Exempt from sales tax	Exempt from property tax	Exempt from sales, use and property taxes	Cost of equipment can be amortized over five years; exempt from sales, use and property taxes	Sales and use taxes paid on energy systems are refunded	Industrial fuels and raw materials exempt from sales and use taxes
	5%	Real and personal property is subject to property tax	None	All inventory taxes have been abolished	Exempt from sales and use taxes	Exempt from property tax	None	Industrial fuels and raw materials exempt from sales and use taxes
	4%	Taxable value of property limited to 60% of assessed true and full value of the company	Exempt from property tax	None	Exempt from use and property taxes	None	Credit against property tax	Industrial fuels and raw materials exempt from sales and use taxes; property-tax abatement
	5.5%	None	Exempt from sales and use taxes	All inventories of finished goods exempt from sales and use taxes	Exempt from sales and use taxes	Exempt from property tax; sales and use taxes are being phased out	None	Industrial fuels and raw materials exempt from sales and use taxes
	6%	All real and tangible property taxed by state and local governments and special taxing districts	Exempt from sales tax	None	Exempt from sales and use taxes	None	Exempt	Property-tax abatement
	5%	All tangible personal property is taxed	Exempt from sales and property taxes	Exempt from property tax	Exempt from sales tax	Exempt from sales tax until January 31, 1991	None	Industrial fuels and raw materials exempt from sales tax
	4%	Assessed at 100% of true market value	None	Exempt in some municipalities	Exempt from sales and property taxes	Exempt from property tax	Exempt from property tax	Industrial fuels and raw materials exempt from sales tax
	3.5%	Subject either to state or local tax, but not to both	Exempt from sales and use taxes	Exempt	Exempt from sales and use taxes	Exempt from sales and use taxes	Exempt from city or county property tax for up to 10 years	Fuels and raw materials exempt from sales and use taxes; property-tax abatement; property for new-product R&D not taxed
	6.65%	Property valued at 100% of true and fair worth and assessed, with exceptions, on the same basis	None	Exempt	None	None	None	Tax deferrals for companies in areas with high unemployment
	None	Property assessed at the local level	None	None	None	None	None	Corporate-headquarters tax credit; small-business tax credit, investment tax credits
	5%	Taxed at the local level	Exempt from sales tax	Exempt from property tax	Exempt from sales, use and property taxes	Cost of equipment may be depreciated, amortized over five years or deducted from corporate-franchise income tax	Exempt from property tax	Industrial fuels and raw materials exempt from sales and use taxes; investment tax credit
	3%	Residential and commercial property tax is generally assessed at 8% of market value	Exempt from property tax	Exempt from property tax	Exempt from sales tax	Exempt from property tax	None	No personal income tax

der the new rules of the pact, 50 percent of direct production costs must be North American for cars made on either side. We would both have been better off with a 60 percent North American content provision. This would have forced the Europeans and the Japanese to use more U.S. and Canadian parts in their automobiles.

Q Are there other shortcomings?

A In chemicals, plastics, apparel and textiles—my industries—all proposals to move to zero tariffs immediately were rejected. We had to settle for five-year phase-ins at the minimum.

But overall, most of the failings and criticisms are picayune.

Q How is Du Pont Canada going to benefit?

A Living through the 1982 recession put a little steel in our soul. We've been building a stronger relationship with Du Pont in the United States, and we've been trying to help the global company by supplying products we can make better or cheaper. We're looking in that big U.S. market and finding a lot of opportunities with great potential.

Q Will the new dispute-settlement process, which allows bilateral review of antidumping actions, work?

A It's a major step forward in international trade law. It will bring a little extra measure of civility and rule of law into our trading relationship, and it will modestly reduce the opportunism that seems to be increasing and damaging the relationship. But for more than 90 percent of the trade between us, it's irrelevant.

Q The agreement breaks new ground by treating most services as they are treated in their home country. But financial services seem to have been left out. How do you feel about that?

A We didn't get reciprocity on financial services and Canada has shown some faith in U.S. fairness there. I hope that the United States delivers. In my case, Du Pont Canada is a consumer of financial services. Having a higher level of competition is good for us. It's the consumers who win from free trade. And when your customers win, you win.

Q Will free trade worsen the plight of industries that are already in trouble?

A The industries in real trouble against low-wage world competition could gain some opportunity from specialization in a larger North American market. They may not take advantage of it, but free trade isn't going to make things any worse for them.

Q Which country—the United States or Canada—has the toughest adjustment problem?

A Canada, because we're smaller. That's why the United States should be generous in phasing in the agreement.

Q How will free trade change petty harassment at the borders of both countries, which some companies have complained about?

A As the French have shown us, harassment at the border can still be a creative art. But I think free trade will smooth the flow at the border and make customers on both sides more confident that their supplies won't be interrupted.

Q Can opponents in the United States build enough support to kill the deal?

A If we both manage the thing well, I think there is little prospect of the special interests on either side killing the deal.

Q Both of the Canadian opposition parties, the Liberals and the New Democrats, oppose the pact. Are they likely to abrogate it if they win the next election?

A To win an election, the opposition would have to elect a lot of members from Quebec, the prairie provinces and British Columbia, all of which favor free trade. I think a new prime minister who wanted to cancel the deal would fail to carry his caucus in Parliament.

Q Is there any chance the deal could become "Fortress North America" instead of a liberalization of world trade?

A If the Europeans cannot bite the bullet on agriculture and insist on protecting their farmers in the new round of GATT talks, they could turn this trade deal into Fortress North America. It's really up to them whether this deal is another major push to liberalize trade or a move toward balkanization.

Q You sort of kiss off the failure of the United States and Canada to face up to the farm issue, yet you criticize the Europeans for doing the same thing. Isn't this a double standard?

A No, because agriculture is a world business. It's almost impossible for Canada and the United States to move unilaterally. We need a much wider agreement to end subsidies, dumping and quotas worldwide.

Q Do you see North American free trade expanding to Mexico?

A Mexico today is at the stage we were at in 1910. They don't have the manufacturing infrastructure or the confidence to enter into a deal like this.

Q What about free trade leading to a North American Common Market?

A This is a big step for Canada and we'll have to see how it works. If the pluses outweigh the minuses, people will be prepared to look at something beyond that. But it will take a generation to convince people that liberalized trade doesn't undermine cultural sovereignty.

Q If either government doesn't pass the free-trade agreement this year, can the deal be salvaged?

A Sure, it can be salvaged. But if you miss the opportunity, you lose the drive and the will to make it happen. You have to wait for the momentum to return, which could take a long time. ■

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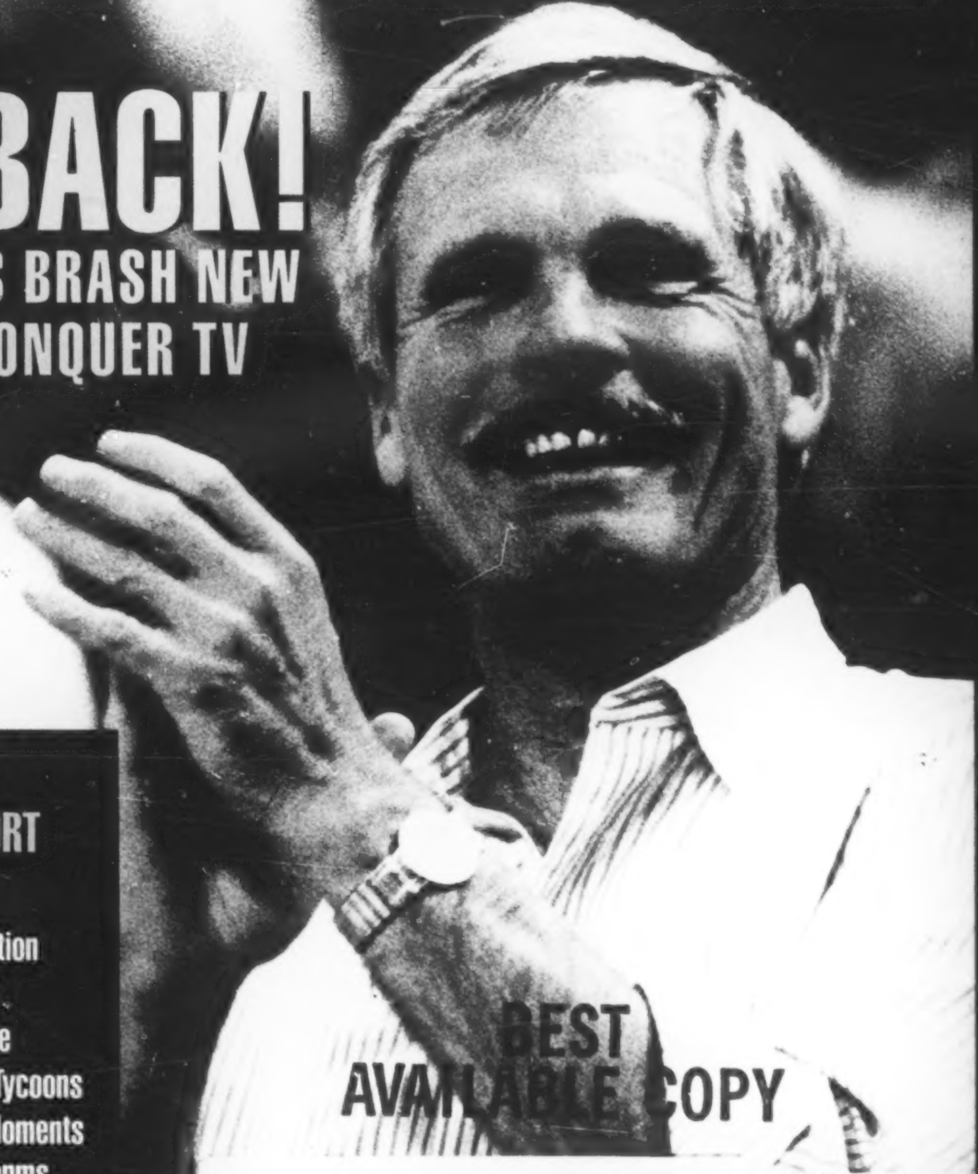

HE'S BACK!

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By Gwenda Blair

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FROM THE EDITOR IN CHIEF

With this special double issue, BUSINESS MONTH celebrates its 95th anniversary. It is, so far as we know, the oldest national business publication in the United States, having survived name changes (it began as *Dun's Review*—see the front of the very first issue below [top left]—and has been known as *Dun's Review and Modern Industry, Dun's, Dun's Business Month*, and now BUSINESS MONTH), shifts in editorial focus, changes in editors and writers, and the considerable vagaries of business itself.

But of much greater interest is our realization that the growth of the magazine parallels the splendid growth of corporate management in this country. The Management Epoch dates from about the 1890s, when some of America's finest companies were born. From rough beginnings in garages and tiny laboratories and classrooms, in offices and in showers, we suppose, the discipline of management has sprung to its present huge and complicated self.

This discipline has its practitioners, of course. But it also has consultants and experts and commentators and gurus, as befits a mystical body of knowledge. Management is hardly an exact science, and there are as many theories on the proper structure and pursuit of management goals as there are, well, economists on all sides of every issue.

In those years, however, a distinctly American management style arose. It was gruff and direct, and it had all the elements of American life: imagination and willingness to risk, intelligence and vision, industriousness and sacrifice—and, to be sure, its share of greed and theft and meanness of spirit. But it was the American can-do style that caught on. The Japanese since World War II have copied the style to a fare-thee-well and have become what Americans once were; U.S. management now copies the Japanese copying Americans copying . . . .

The Management Epoch remains in full swing in this 95th year, and BUSINESS MONTH rededicates itself to reporting on the ideas and trends, issues and policies, patterns and personalities of the great corporations as they struggle to enter the 21st century very high up the mountains they once commanded, if not, in all cases, as kings of the hill.

JOHN VAN DOORN

DUN'S REVIEW.

Dun's Review

DUN'S REVIEW
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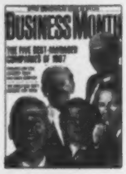
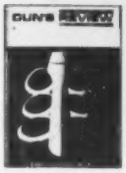
Dun's BUSINESS MONTH
THE VERDICT ON DEREGULATION

DUN'S REVIEW





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NORA FELLER

PERSPECTIVE

Over There Is Where It's At

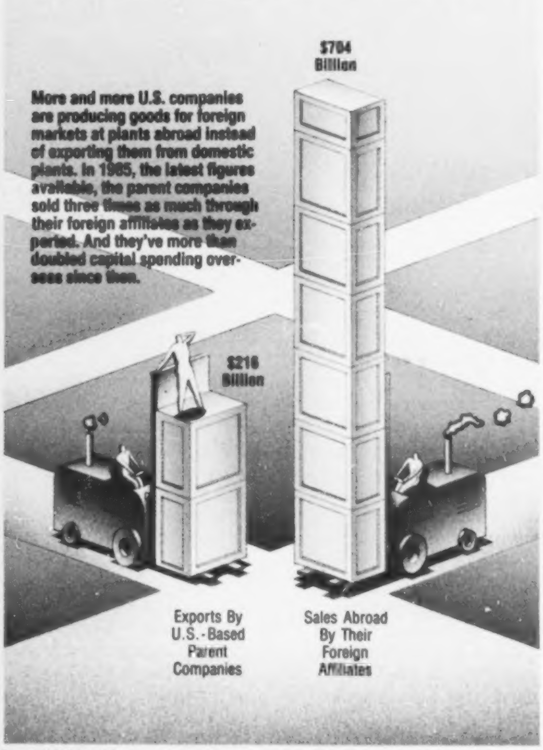
THE BLOODY BATTLE between President Reagan and Congress over the finer points of trade legislation may make good entertainment, but it's not going to have much impact on the kudzu-like trade deficit. That, at least, is the unhappy news from John Hein, director of international economic research at the Conference Board. "People keep asking me when the U.S. trade deficit will get back to zero," says Hein. "My answer is that it won't happen in my lifetime. We'll be lucky to get it down to $100 billion a year within three to five years."

Why such a gloomy outlook? It's not the loss of markets to the Japanese or the erratic dollar. It's because "exports have become passé in doing global business," Hein says. Instead, American businesses are expanding production facilities abroad—to the point where sales of goods and services by their foreign-based operations now outweigh their exports from the United States by more than three-to-one. (See chart.) Last year, American companies invested a record $22.6 billion abroad, versus $11.8 billion in 1986 (adjusted for currency changes). Small wonder, then, that economists are pessimistic about whittling down the trade gap—what with U.S. multinationals sacrificing exports on a rapidly growing scale.

The brightest hope is the fact that Japanese, British and other foreign-based multinationals are expanding in the United States just as vigorously as American-based companies are increasing their foreign output. "The big Japanese trading companies, such as Mitsui, are already among the largest U.S. exporters," Hein says. Their exports from the United States are helping to contain the trade deficit and creating domestic jobs to offset those lost through American expansion abroad. Does this mean that what's good for Honda is good for America?

—*Stephen W. Quickel*

U.S. EXPORTS: HEADED FOR A COLLISION



More and more U.S. companies are producing goods for foreign markets at plants abroad instead of exporting them from domestic plants. In 1985, the latest figures available, the parent companies sold three times as much through their foreign affiliates as they exported. And they've more than doubled capital spending overseas since then.

Source: U.S. Dept. of Commerce

HANS NELEMAN/WHEELER CHART BY DALE GLASGOW

In taking on the Postal Service, H. Ross Perot may have met his match.

H. Ross Aims To Affix His Stamp

WHAT IS H. ROSS PEROT, the Texas computer magnate and self-appointed industry gadfly, going to do with the United States Postal Service now that he's got it? Speculation is he may be planning a management strategy similar to the one he used in 1984 to overhaul the Texas education system: No pass-no play for high-school athletes becomes no productivity-no pay for Uncle Sam's letter carriers.

The feisty genius of the systems-automation world turned down the official position of Postmaster General earlier this year but accepted a 90-day, nonprofit contract to identify and implement initiatives throughout the post-office system that will cut costs, now spiraling out of control at the rate of $1.5 billion a year. After that three-month period, Perot will split any savings generated by his recommendations with the federal government.

Perot's vehicle for this impending postal barrage is his new Perot Systems Corporation, a company backed with some of his own billions through a financing venture he calls—with typical aplomb—Here We Go Again. The Texan built his first company, Electronic Data Systems Corporation (EDS), from a $1,000 nest egg into a computing giant for which General Motors was willing to pay $2.55 billion. This time around, he has started with significantly more money—most notably the $850 million alimony payment General Motors gave him in 1986 to quit bad-mouthing the company's management.

Perot's new venture will also receive a head start from the raft of eight senior executives he lured away from EDS the day after his non-compete

THE CASH CRUNCH

Money is certainly not pouring into corporate pockets, as revealed by BUSINESS MONTH's annual survey of cash-flow leaders. Pity especially poor General Motors.

As if October 19 wasn't bad enough, American industry's total cash flow fell last year for the first time since 1980. The downturn—1.3 percent to $370.8 billion, according to Data Resources Inc., the economics research firm—came despite a respectable 8.6 percent growth in corporate profits. The gloomier cash-flow picture reflected the bite of a higher effective tax rate and the fact that much of the growth in profits—the first increase since 1984—was due to the rising value of unsold inventories, which is not reflected in cash flow.

As every chief financial officer knows, the cash generated by a company's operations—basically, net profits plus depreciation and deferred taxes—is a far more reliable barometer of financial well-being than profits, which are often skewed by accounting conventions. A healthy cash flow gives a company the wherewithal to borrow money, sell equity, build new plants, buy new businesses, pay dividends and weather a recession.

The 200 richest companies chalked up cash flow of $209.3 billion in 1987, just a smidgen off 1986's $209.7 billion. One negative influence on the overall result was the poor performance of General Motors Corporation, which fell off the top-200 list with a thud. In 1986, GM's $5.8 billion in cash flow put it in fifth place. But last year, poor car sales and hulking inventories forced the company to bankroll sales with cut-rate loans, and by year-end the loans ended up as an $8.5 billion payable on the books, wiping out its cash. To add insult to injury, Ford Motor Company replaced GM as the leader in the most telling indicator of corporate health: discretionary cash flow (the free cash remaining after capital expenditures, debt retirement and dividend payments).

Corporate restructurings continued to swell some company coffers in 1987, adding a number of old-line companies to the top 200. Among the 45 newcomers to the roster: Eaton, an industrial components producer; Caterpillar, the big construction and equipment company; and three steel companies—Bethlehem, Wheeling-Pittsburgh Steel and LTV, a recovered bankrupt. Strong commodity prices sparked profit comebacks for Reynolds Metals and for three paper producers—Fort Howard, Bowater and Stone Container—all of which gained entry to the list. So did Texas Instruments and Intel, thanks to a turnaround in the semiconductor market.

But ongoing recession fears, on top of the stock-market crash, have made even cash-rich companies tightfisted. Capital spending on plant and equipment rose by a meager 1 percent in 1987, even though many manufacturers have been operating at close to capacity. "It looks like companies are hoarding their cash," says Mark Tavel, executive vice president of Value Line. "They don't have enough confidence in the future to spend $200 million or $300 million on plants that will not be ready for two or three years. Management is saying, let's sit on our hands."

Management's caution is understandable. Many companies rushed to add new capacity in the 1970s and were badly hurt by the 1981–82 recession. They don't want to get caught again by expanding too fast.

At the same time, cash is being drained to service the debt built up in rampant takeover activity. A number of companies spent heavily in 1987 to defend themselves against hostile takeovers. Some $75.7 billion in stock buy-backs were announced during the year, nearly double the $39 billion announced in 1986, according to Salomon Brothers. On the top-200 list, for example, USX and Santa Fe Southern Pacific both show healthy cash flow but negative discretionary cash on hand, caused in part by their outlays for stock buy-backs and special dividends.

Several companies that were swallowed in heavily debt-financed takeovers—Federated Department Stores, Safeway Stores and Firestone Tire & Rubber—will be off the top-200 list in 1988. And the roster is filled with companies that are now locked in a struggle to stay independent. Texaco, Pennzoil, Avon, Gillette, Bausch & Lomb, Contel, USG and Pillsbury share the dubious distinction of being in play—due largely to the attraction of their healthy cash flow.

Indeed, for cash-rich companies looking to expand, it is still cheaper to buy than to build, and raiders have taken a backseat to aggressive U.S. and foreign companies in the acquisition boom of the past few months. If there is a recession—which economists are now predicting for the second half of 1989—the pickings should be even easier.

The 200 nonfinancial companies listed on the following pages are ranked by the dollar value of cash flow generated from operations in 1987.

WRITER: LEAH NATHANS

COMPANY	CASH FLOW		NET INCOME		DISCRETIONARY CASH FLOW		RETURN ON EQUITY	DEBT TO EQUITY	REVENUES	CASH FLOW TO REVENUES	MARKET VALUE/ CASH FLOW RATIO
1 Exxon	10,266	45.4	4,840	-9.7	1,431	-1,302	14.4	.23	76,416	13.4	5.1
2 International Business Machines	8,748	-26.1	5,258	9.8	1,509	4,122	13.7	.14	54,217	16.1	7.9
3 Ford Motor	8,272	8.5	4,625	40.8	13,781	3,363	25.0	.20	71,643	11.6	2.2
4 American Telephone & Telegraph†	6,370	-6.1	2,044	551.0	908	490	14.0	.54	51,209	12.4	4.6
5 Texaco	5,972	44.9	-4,407	NM	2,953	1,138	-48.1	.18	34,372	17.4	1.6
6 Chevron	4,361	-2.9	1,007	40.8	CF	880	6.4	.45	26,015	16.8	3.1
7 General Electric	4,341	44.2	2,119	-15.0	1,320	-164	12.9	.34	39,315	11.0	9.2
8 Du Pont (E.I.)	4,225	9.8	1,786	16.1	132	292	12.7	.33	30,468	13.9	4.9
9 Atlantic Richfield	4,222	224.0	1,224	99.0	1,171	-2,336	20.8	1.38	16,282	25.9	2.9
10 Amoco	3,959	41.7	1,360	82.1	544	-608	11.2	.29	20,174	19.6	4.5
11 GTE	3,916	-1.2	1,119	-5.5	-336	-334	13.9	1.24	15,421	25.4	2.9
12 BellSouth	3,[illegible]86	-12.2	1,665	4.8	-505	-179	13.9	.59	12,269	30.1	4.8
13 RJR Nabisco†	3,746	21.7	1,081	.1	1,915	1,380	17.4	.72	15,766	23.8	3.0
14 Mobil	3,282	-15.3	1,258	-10.6	-204	-69	7.5	.52	51,223	6.4	4.9
15 Bell Atlantic	3,232	-2.3	1,240	6.3	117	312	14.2	.67	10,298	31.4	4.0
16 NYNEX	2,897	-7.2	1,277	5.0	-649	8	13.9	.67	12,084	24.0	4.5
17 American Information Technologies	2,769	-14.2	1,188	4.4	55	276	15.6	.64	9,536	29.0	4.2
18 Philip Morris	2,752	17.8	1,842	24.6	1,182	477	27.0	.93	22,279	12.4	7.3
19 Chrysler	2,704	9.4	1,290	-8.1	429	132	19.8	.56	26,277	10.3	1.8
20 US West	2,643	-1.1	1,006	8.8	200	188	13.5	.70	8,445	31.3	3.6
21 Southwestern Bell	2,610	-3.1	1,047	2.4	424	102	12.8	.80	8,003	32.6	4.0
22 Allegis	2,595	229.7	-4	NM	1,419	-1,066	-0.2	.85	8,293	31.3	1.6
23 Eastman Kodak	2,553	92.2	1,178	215.0	CF	CF	19.6	.54	13,305	19.2	6.2
24 Pacific Telesis	2,371	-27.5	950	-12.0	-579	332	12.0	.74	9,131	26.0	4.9
25 Occidental Petroleum	1,958	173.7	184	6.9	0.5	-763	3.1	1.28	17,096	11.5	2.7
26 Dow Chemical	1,848	18.2	1,245	68.0	384	136	21.6	.69	13,377	13.8	9.2
27 Allied-Signal	1,813	121.4	515	-14.9	768	-279	16.4	.80	11,116	16.3	2.3
28 Procter & Gamble[3]	1,742	38.8	327	-53.9	316	-285	5.5	.50	17,000	10.3	8.3
29 Digital Equipment[5]	1,718	27.6	1,137	84.2	966	781	18.1	.04	9,389	18.3	9.9
30 Unisys	1,704	53.8	578	NM	369	390	15.2	.46	9,713	17.5	2.9
31 Minnesota Mining & Manufacturing	1,540	1.7	918	17.8	282	387	18.1	.14	9,429	16.3	9.5
32 Sun	1,511	215.5	348	-9.6	-232	-1,103	6.6	.60	8,691	17.4	3.6
33 Tenneco	1,504	39.8	-132	NM	-248	-539	-4.8	1.94	14,790	10.2	3.9
34 PepsiCo	1,431	-20.3	605	32.2	449	571	24.1	1.29	11,485	12.5	6.1
35 CSX†	1,404	38.5	432	3.4	69	-179	8.9	.70	8,043	17.5	3.2
36 Coca-Cola	1,332	36.9	916	-2.0	583	-129	28.4	.84	7,658	17.4	10.7
37 Rockwell International[6]	1,330	0.6	635	3.9	642	518	19.2	.28	12,123	11.0	3.4
38 Goodyear Tire & Rubber	1,235	NM	514	410.3	434	-1,619	28.0	1.97	9,905	12.5	2.8
39 Santa Fe Southern Pacific	1,234	-0.7	346	NM	-272	-181	6.6	.37	5,448	22.6	5.9
40 Unocal	1,232	-22.9	181	2.8	104	511	10.3	2.83	8,466	14.6	2.7
41 United Parcel Service	1,222	3.4	625	-6.6	-295	184	20.6	.04	9,682	12.6	NA
42 ITT	1,209	-38.9	1,085	105.5	420	1,273	14.3	.37	8,551	14.1	5.0
43 Hewlett-Packard[7]	1,191	17.5	644	24.8	575	403	12.8	.21	8,090	14.7	12.6
44 Phillips Petroleum	1,180	-5.0	35	-85.0	92	197	0.8	3.07	10,721	11.0	2.7
45 United Technologies	1,171	NM	592	NM	145	-1,163	13.8	.56	17,170	6.8	3.8
46 Burlington Northern	1,122	-14.2	367	NM	177	318	9.7	.90	6,621	16.9	4.2
47 Union Pacific†	1,103	-33.3	560	NM	CF	CF	14.9	.70	5,943	18.6	5.1
48 McDonald's	1,098	25.0	549	14.5	-89	-180	18.8	.95	4,853	22.6	7.6
49 Merck	1,050	5.1	906	34.1	461	509	42.8	.48	5,061	20.8	19.8
50 General Motors (Class H)	1,044	37.2	670	12.8	404	-62	9.5	.11	10,408	10.0	3.1

COMPANY	CASH FLOW		NET INCOME		DISCRETIONARY CASH FLOW		RETURN ON EQUITY	DEBT TO EQUITY	REVENUES	CASH FLOW TO REVENUES	MARKET VALUE/ CASH FLOW RATIO
51 Lockheed	1,025	24.9	436	6.9	504	212	20.9	.59	11,321	9.1	2.1
52 United Telecommunications	1,019	11.2	–52	NM	83	–262	–3.6	2.10	3,064	33.3	2.4
53 Anheuser-Busch	997	9.1	615	18.7	–18	–35	21.3	.49	8,258	12.1	9.8
54 General Motors (Class E)	977	72.1	323	23.8	555	–112	30.7	.06	4,324	22.6	2.0
55 NCR	945	38.9	419	24.6	447	215	19.4	.10	5,641	16.8	5.6
56 Johnson & Johnson	937	–28.2	833	152.8	120	565	23.9	.31	8,012	11.7	13.8
57 LTV	900	NM	503	NM	537	–410	NM	NM	7,582	11.9	0.3
58 USX	894	–51.5	206	NM	–3,785	248	2.7	1.52	13,898	6.4	8.8
59 Contel	865	6.6	78	–66.6	–25	–94	5.4	1.54	2,905	29.8	2.6
60 Abbott Laboratories	857	27.0	633	17.0	222	116	30.2	.42	4,388	19.5	12.8
61 Quantum Chemical	845	NM	144	160.6	583	–347	13.4	.80	2,567	32.9	2.6
62 AMR	843	12.9	198	–28.9	–465	–1,043	7.4	1.06	7,198	11.7	2.5
63 Delta Air Lines[3]	826	138.0	264	457.7	–429	–314	13.6	.55	5,318	15.5	2.2
64 Norfolk Southern	815	–4.3	173	–66.8	–81	–187	3.5	.16	4,113	19.8	6.1
65 Bristol-Myers	813	19.5	710	20.4	214	154	22.0	.13	5,401	15.1	14.7
66 American Home Products	804	–44.8	845	8.5	33	786	33.4	.16	5,028	16.0	13.2
67 SmithKline Beckman	786	7.2	570	9.4	CF	CF	36.0	.76	4,329	18.2	7.7
68 AMAX	774	NM	77	NM	CF	CF	5.6	1.08	3,351	23.1	2.5
69 Weyerhaeuser	770	41.3	447	61.4	–203	–283	11.6	.48	6,990	11.0	6.8
70 Eaton	742	253.9	206	49.9	521	15	19.1	.77	3,138	23.6	2.7
71 Owens-Corning Fiberglas	727	268.6	220	NM	–131	CF	NM	NM	2,891	25.1	0.9
72 Sara Lee[3]	724	132.4	268	19.5	316	–20	18.6	.62	9,155	7.9	5.4
73 Borden	718	–0.1	267	19.6	420	468	16.1	.78	6,514	11.0	5.1
74 K mart[3]†	716	4.7	692	21.4	–134	–177	15.7	.64	25,864	2.8	8.3
75 Hospital Corp. of America	715	105.9	–58	NM	0.4	–350	–3.0	1.33	4,676	15.3	3.6
76 Penney (J.C.)[9]	708	5.2	608	14.7	–365	142	14.6	.85	15,332	4.6	8.5
77 CPC International	687	41.2	355	61.9	311	–4	32.7	.87	4,903	14.0	4.7
78 Aluminum Co. of America	682	–20.4	224	–15.2	–349	139	5.8	.68	7,767	8.8	6.1
79 Motorola	663	–1.9	308	58.8	–119	–18	10.2	.24	6,707	9.9	9.7
80 Consolidated Rail	651	20.1	267	–15.5	35	–163	6.9	.24	3,247	20.1	2.9
81 Kraft	646	–36.1	390	.1	23	540	20.6	.83	9,876	6.5	9.6
82 Holiday	635	9.3	118	14.0	–1,208	142	NM	NM	1,820	34.9	1.0
83 Kimberly-Clark	628	47.5	325	20.7	227	–7	20.7	.60	4,885	12.9	6.4
84 Emerson Electric[6]	619	24.3	467	14.3	189	132	17.3	.34	6,170	10.0	12.9
85 Lilly (Eli)	619	–31.8	411	–26.5	–13	355	13.7	.20	3,644	17.0	17.6
86 Waste Management	613	–28.3	327	–11.8	–95	318	17.4	.28	2,758	22.2	13.8
87 PPG Industries	601	30.4	377	19.2	CF	CF	18.5	.70	5,183	11.6	6.1
88 Georgia-Pacific	592	13.0	458	54.7	–356	–96	17.0	.61	8,603	6.9	6.1
89 Monsanto	590	–48.8	436	0.7	–265	409	11.2	.54	7,639	7.7	10.4
90 TRW†	590	24.7	243	11.6	21	–82	17.0	.83	6,821	8.6	4.8
91 Caterpillar	578	650.7	319	319.7	–21	–400	9.0	.42	8,180	7.1	10.9
92 Kellogg	557	2.5	396	24.2	–84	86	32.7	.36	3,793	14.7	11.6
93 May Department Stores	555	NM	444	16.5	–265	–722	16.2	.45	10,581	5.3	7.8
94 Capital Cities/ABC	547	NM	279	53.4	CF	CF	12.5	.76	4,440	12.3	10.2
95 Federated Dept. Stores	537	8.4	313	3.7	–106	–176	11.9	.52	11,118	4.8	5.4
96 Bethlehem Steel	537	148.8	104	NM	184	–32	8.5	1.08	4,621	11.6	2.0
97 Union Carbide	517	–64.4	232	78.5	–251	–490	18.6	2.55	6,914	7.5	5.6
98 Kiewit (Peter) Sons	517	NA	124	–20.5	246	NA	11.7	.85	4,682	11.0	NA
99 Air Products & Chemicals[6]	512	26.9	160	NM	118	–35	13.9	.58	2,132	24.0	4.4
100 Heinz (H.J.)[1]	508	28.2	339	12.2	163	57	24.3	.63	4,639	11.0	10.2

COMPANY	CASH FLOW		NET INCOME		DISCRETIONARY CASH FLOW		RETURN ON EQUITY	DEBT TO EQUITY	REVENUES	CASH FLOW TO REVENUES	MARKET VALUE/ CASH FLOW RATIO
		% change		% change							
101 Ralston Purina[6]	**507**	108.1	**526**	99.7	**−1**	**−47**	54.8	1.76	5,868	8.6	**8.8**
102 Ryder System	**506**	−37.1	**187**	16.3	**−996**	**−223**	13.8	1.97	4,609	11.0	**4.1**
103 MCI Communications†	**503**	8.4	**85**	NM	**−183**	**−1,064**	6.3	2.10	3,939	12.8	**5.3**
104 Federal Express[2]**†**	**502**	14. 3	**167**	26.6	**CF**	**CF**	15.5	.75	3,178	15.8	**4.1**
105 Champion International	**502**	−28.9	**382**	90.2	**−40**	**13**	−13.0	.63	4,615	10.9	**6.6**
106 Gulf + Western[7]**†**	**501**	−63.4	**356**	55.7	**CF**	**CF**	16.9	.66	2,904	17.3	**8.5**
107 Scott Paper	**497**	44.0	**234**	25.4	**−16**	**CF**	14.9	.94	4,122	12.1	**5.2**
108 IC Industries	**495**	123.3	**249**	NM	**132**	**−141**	15.8	1. 34	4,027	12.3	**7.1**
109 Trans World Airlines	**478**	797.2	**45**	NM	**272**	**−341**	−5.5	4.86	4,056	11.8	**1.2**
110 USAir	**476**	64.7	**195**	97.9	**−61**	**−46**	10.5	.99	3,001	15.8	**3.1**
111 Brunswick	**470**	180.4	**169**	53.0	**306**	**47**	19.9	.47	3,086	15.2	**2.8**
112 Gannett	**466**	−10.3	**319**	15.6	**76**	**187**	19.9	.68	3,079	15.1	**13.6**
113 MCA	**465**	−38.1	**137**	−11.6	**−462**	**−126**	8.8	.65	2,590	18.0	**5.4**
114 Warner Communications	**464**	35.5	**298**	82.2	**206**	**−267**	17.3	.28	3,404	13.6	**7.5**
115 Campbell Soup[4]	**463**	4.7	**247**	10.8	**52**	**129**	14.2	.27	4,490	10.3	**7.8**
116 Marriott	**462**	1.5	**223**	16.3	**−759**	**−634**	27.5	3.14	6,522	7.1	**7.7**
117 International Paper	**461**	3.8	**407**	33.4	**−567**	**−302**	9.6	.55	7,763	5.9	**10.2**
118 FMC	**458**	−16.5	**191**	25.4	**293**	**−1,528**	NM	NM	3,139	14.6	**2.5**
119 Amerada Hess	**457**	17.0	**230**	NM	**−20**	**91**	10.7	.76	4,707	9.7	**4.5**
120 Schering-Plough	**456**	42.3	**316**	19.0	**159**	**80**	21.9	.69	2,699	16.9	**11.5**
121 Texas Instruments	**454**	120.8	**257**	543.9	**−89**	**−304**	14.1	.24	5,595	8.1	**9.7**
122 Macy (R.H.)	**452**	NM	**−14**	NM	**169**	**−270**	NM	10.78	5,210	8.7	**NA**
123 USG	**450**	45.5	**204**	−20.0	**172**	**9**	33.5	1.35	2,898	15.5	**3.3**
124 Boise Cascade	**446**	64.8	**183**	80.2	**95**	**−242**	12.0	.65	3,821	11.7	**4.1**
125 Upjohn	**443**	23.4	**305**	20.7	**119**	**57**	18.2	.28	2,530	17.5	**12.7**
126 Warner-Lambert	**443**	−14.5	**296**	−4.4	**−4**	**219**	33.8	.51	3,485	12.7	**10.5**
127 Boeing	**441**	−76.9	**480**	−27.8	**−528**	**906**	9.6	.05	15,355	2.9	**12.8**
128 Times Mirror	**440**	33.9	**266**	−34.7	**22**	**−216**	18.3	.61	3,080	14.3	**10.5**
129 GenCorp[8]	**437**	63.6	**18**	−86.2	**300**	**29**	NM	NM	1,619	27.0	**1.6**
130 Reynolds Metals†	**432**	144.8	**201**	97.0	**92**	**−42**	12.3	1.08	4,284	10.1	**5.9**
131 PACCAR	**427**	300.9	**112**	107.2	**362**	**48**	14.0	.05	2,424	17.6	**2.4**
132 Union Camp	**425**	26.0	**207**	59.7	**144**	**31**	14.3	.46	2,308	18.4	**6.1**
133 Textron	**423**	25.9	**261**	8.1	**109**	**63**	11.5	.65	5,388	7.9	**4.8**
134 American Cyanamid	**413**	−16.5	**264**	30.4	**14**	**136**	14.1	.52	4,166	9.9	**9.0**
135 Marsh & McLennan	**413**	5.0	**302**	24.2	**128**	**168**	38.2	.20	2,147	19.2	**8.9**
136 Pillsbury[2]	**412**	−31.5	**182**	−12.6	**−44**	**179**	13.2	.76	6,128	6.7	**7.4**
137 American Medical International[4]**†**	**409**	−5.9	**111**	NM	**96**	**−83**	12.2	1.91	2,704	15.1	**2.7**
138 Humana[3]	**409**	−12.0	**183**	235.8	**49**	**58**	19.0	1.28	2,832	14.4	**4.6**
139 Squibb	**407**	−48.2	**358**	36.0	**110**	**584**	24.0	.17	2,157	18.9	**15.5**
140 Kerr-McGee	**398**	26.0	**84**	NM	**66**	**−92**	6.2	.49	2,608	15.3	**4.4**
141 General Mills[2]	**395**	−63.0	**222**	21.0	**−55**	**663**	30.4	.52	5,189	7.6	**11.1**
142 NWA	**395**	−25.5	**103**	33.9	**−306**	**−169**	7.0	.85	5,142	7.7	**2.7**
143 Wal-Mart Stores[9]	**385**	5.8	**628**	39.5	**−355**	**−282**	27.8	.52	15,959	2.4	**38.2**
144 Avon Products	**384**	120.3	**238**	50.1	**117**	**−118**	31.4	1.16	2,763	13.9	**4.8**
145 Gillette	**376**	76.6	**330**	NM	**136**	**−139**	38.4	1.79	3,167	11.9	**8.7**
146 Amdahl	**376**	56.1	**142**	261.0	**207**	**112**	18.5	.21	1,505	25.0	**4.9**
147 Woolworth (F.W.)[9]	**374**	17.6	**251**	17.3	**25**	**28**	14.6	. 21	6,850	5.5	**5.9**
148 Centel	**364**	−13.9	**157**	44.1	**−89**	**80**	15.2	.86	1,476	24.7	**4.2**
149 Pennzoil	**363**	−26.9	**44**	−35.4	**51**	**154**	4.6	1.70	1,787	20.3	**8.1**
150 Service Merchandise	**358**	976.8	**25**	NM	**280**	**−127**	8.1	2.29	2,719	13.2	**0.3**

COMPANY	CASH FLOW		NET INCOME		DISCRETIONARY CASH FLOW		RETURN ON EQUITY	DEBT TO EQUITY	REVENUES	CASH FLOW TO REVENUES	MARKET VALUE/ CASH FLOW RATIO
151 Donnelley (R.R.) & Sons	356	28.2	218	37.9	CF	CF	18.9	.22	2,483	14.4	7.1
152 Union Texas Petroleum Holdings	352	NM	56	NM	–2	–240	2.9	1.57	1,257	28.0	1.9
153 Tribune	351	1.3	142	–51.7	107	148	12.9	.50	2,160	16.3	8.9
154 Browning-Ferris Industries[6]	347	43.8	172	25.7	–288	–91	19.7	.69	1,657	20.9	11.9
155 Navistar International†	345	–41.2	146	NM	196	492	31.8	.32	3,530	9.8	3.1
156 Cooper Industries	338	–27.2	174	17.7	129	266	10.9	.62	3,575	9.5	8.2
157 Xerox	333	–80.2	578	18.4	CF	236	10.4	.39	10,320	3.2	17.0
158 Fort Howard	331	45.2	158	7.8	45	–202	12.1	.34	1,758	18.8	7.0
159 CBS	331	–29.7	136	–28.4	159	144	11.0	.72	2,762	12.0	11.2
160 Ashland Oil[6]	329	–26.2	133	–36.0	–177	68	12.5	.76	6,871	4.8	5.4
161 American Petrofina (Class A)	328	155.3	83	NM	104	–28	11.4	.82	2,484	13.2	2.3
162 Westvaco[7]	325	8.4	146	35.2	–13	5	12.4	.43	1,904	17.1	5.6
163 Armco	324	543.7	141	NM	225	–137	19.4	1.01	2,927	11.1	3.0
164 Intel	324	229.9	176	NM	22	–61	13.4	.57	1,907	17.0	13.8
165 Great Northern Nekoosa	323	12.7	201	135.2	11	90	16.4	1.26	2,589	12.5	7.9
166 Viacom	317	291.9	–123	NM	230	26	–29.1	2.61	1,011	31.4	3.1
167 Limited	316	11.7	235	3.3	–13	54	32.3	.47	3,528	9.0	9.8
168 Rohm & Haas	316	2.9	195	41.3	–41	34	18.5	.35	2,203	14.3	6.7
169 Raytheon	316	–44.2	445	13.2	–179	79	24.1	.27	7,659	4.1	14.3
170 Southern New England Tel.	315	–12.3	140	0.4	–170	–30	12.9	.78	1,470	21.4	4.4
171 Greyhound	314	138.8	83	–12.3	138	–101	8.7	.95	2,259	13.9	3.1
172 TW Services†	311	387.4	57	260.0	154	–111	12.5	2.61	2,492	12.5	2.2
173 Martin Marietta	309	–45.1	231	14.0	–21	208	25.4	.39	5,165	6.0	7.2
174 Dun & Bradstreet	294	–52.4	393	15.6	–154	262	23.6	.02	3,359	8.8	28.3
175 Louisiana Land & Exploration	294	7.0	25	NM	97	88	4.2	.94	784	37.5	3.6
176 Time	289	–49.1	250	–33.5	–49	232	20.0	.91	4,193	6.9	16.5
177 Firestone Tire & Rubber[7]	289	20.0	103	NM	4	–29	8.7	.36	3,867	7.5	3.8
178 AMP	287	–6.0	250	51.9	15	60	18.5	.14	2,318	12.4	17.5
179 Murphy Oil	286	16.9	–44	NM	105	51	–5.8	.49	1,474	19.4	2.7
180 International Minerals & Chemical	286	NM	15	NM	145	–343	0.2	.80	1,638	17.5	4.5
181 Knight-Ridder	286	–1.1	155	10.8	67	92	17.2	.61	2,073	13.9	7.9
182 Corning Glass Works	284	11.3	189	16.6	CF	CF	12.3	.29	2,084	13.7	7.4
183 Dow Jones	284	–1.3	203	10.7	114	160	24.0	.52	1,314	21.6	10.2
184 Halliburton	281	–56.5	48	NM	95	391	2.3	.11	3,373	8.3	9.3
185 Triangle Industries	279	129.3	55	16.7	–46	–44	12.9	3.95	4,336	6.4	2.2
186 VF	273	NM	180	38.9	49	–256	18.3	.56	2,574	10.6	6.1
187 ALLTEL	271	10.2	104	87.1	43	12	17.7	.96	736	36.8	3.5
188 Bowater	269	425.0	81	64.1	CF	–246	10.7	.47	1,231	21.8	4.0
189 Stone Container	267	576.9	161	355.5	139	–46	21.6	1.48	3,233	8.3	5.5
190 Freeport McMoRan	264	34.1	249	868.1	CF	34	32.0	.86	1,514	17.5	6.5
191 Cabot	264	–0.3	39	–46.3	132	152	6.6	.44	1,424	18.6	3.4
192 Coca-Cola Enterprises	262	23.2	88	218.0	25	68	5.8	1.41	3,329	7.9	7.6
193 Nerco	262	53.1	60	4.5	166	98	17.1	.79	632	41.5	1.8
194 Goodrich (B.F.)	262	–24.9	84	550.4	42	65	8.5	.39	2,168	12.1	3.9
195 Safeway Stores	259	–9.7	–112	NM	–818	–457	NM	NM	18,301	1.4	NA
196 Wheeling-Pittsburgh Steel	259	286.3	52	NM	177	43	NM	NM	1,001	25.9	0.1
197 IBP	258	267.5	68	1.7	–771	–15	14.8	.95	7,681	3.4	2.4
198 Ingersoll-Rand	257	–2.6	108	7.3	–32	92	9.0	.30	2,648	9.7	7.2
199 Bausch & Lomb	257	167.0	85	14.3	176	18	14.8	.31	840	30.6	4.0
200 Mapco	255	80.1	57	–26.9	153	59	11.2	.77	1,581	16.1	3.8

ALPHABETICAL RANKING—CASH FLOW: THE TOP 200

COMPANY	Rank '87	Rank '86
AMP	178	172
AMR	62	75
AT&T	4	4
Abbott Laboratories	60	86
Air Products & Chemicals	99	136
Allegis	22	70
ALLTEL	187	
Allied-Signal	27	67
Aluminum Co. of America	78	62
AMAX	68	
Amerada Hess	119	140
American Cyanamid	34	115
American Home Products	66	33
American Info. Tech.	17	14
American Medical Int'l.	137	132
American Petrofina (Class A)	161	
Amdahl	146	
Amoco	10	19
Anheuser-Busch	53	57
Armco	163	
Ashland Oil	160	128
Atlantic Richfield	9	40
Avon Products	144	
Bausch & Lomb	199	
Bell Atlantic	15	12
BellSouth	12	7
Bethlehem Steel	96	
Boeing	127	24
Boise Cascade	124	186
Borden	73	79
Bowater	188	
Bristol-Myers	65	84
Browning-Ferris Industries	154	
Brunswick	111	
Burlington Northern	46	38
CBS	159	121
CPC Int'l.	77	117
CSX	35	51
Cabot	191	190
Campbell Soup	115	130
Capital Cities/ABC	94	
Caterpillar	91	
Centel	148	134
Champion Int'l.	105	81
Chevron	6	6
Chrysler	19	18
Coca-Cola	36	55
Coca-Cola Enterprises	192	
Consolidated Rail	80	102
Contel	59	68
Cooper Industries	156	124
Corning Glass Works	182	194
Delta Air Lines	63	148
Digital Equipment	29	35
Donnelley (R.R.) & Sons	151	
Dow Chemical	26	31
Dow Jones	183	180
Du Pont (E.I.)	8	11
Dun & Bradstreet	174	90
Eastman Kodak	23	36
Eaton	70	
Emerson Electric	84	112
Exxon	1	3
FMC	118	99
Federal Express	104	131
Federated Dept. Stores	95	114
Firestone Tire & Rubber	177	200
Ford Motor	3	2
Fort Howard	158	
Freeport McMoRan	190	
GTE	11	9
Gannett	112	106
GenCorp	129	188
General Electric	7	16
General Mills	141	50
General Motors (Class E)	54	96
General Motors (Class H)	50	73
Georgia-Pacific	88	105
Gillette	145	
Goodrich (B.F.)	194	146
Goodyear Tire & Rubber	38	111
Great Northern Nekoosa	165	181
Greyhound	171	
Gulf + Western	106	
Halliburton	184	88
Heinz (H.J.)	100	137
Hewlett-Packard	43	52
Holiday	82	94
Hospital Corp. of America	75	147
Humana	138	123
IBP	197	
IC Industries	108	
ITT	42	23
Ingersoll-Rand	198	191
Intel	164	
IBM	2	1
Int'l. Minerals & Chemical	180	
Int'l. Paper	117	129
Johnson & Johnson	56	39
Kellogg	92	101
Kerr-McGee	140	166
Kiewit (Peter) Sons	98	
Kimberly-Clark	83	133
K mart	74	82
Knight-Ridder	181	178
Kraft	81	53
LTV	57	
Lilly (Eli)	85	58
Limited (The)	167	183
Lockheed	51	66
Louisiana Land & Exploration	175	184
MCA	113	74
MCI Communications	103	125
Macy (R.H.)	122	
Mapco	200	
Marriott	116	127
Marsh & McLennan	135	139
Martin Marietta	173	98
May Department Stores	93	
McDonald's	48	60
Merck	49	54
3M	31	32
Mobil	14	10
Monsanto	89	48
Motorola	79	85
Murphy Oil	179	197
NCR	55	83
NWA	142	104
Navistar Int'l.	155	92
Nerco	193	
Norfolk Southern	64	64
NYNEX	16	15
Occidental Petroleum	25	80
Owens-Corning Fiberglas	71	
PPG Industries	87	126
PACCAR	131	
Pacific Telesis	24	13
Penney (J.C.)	76	87
Pennzoil	149	113
PepsiCo	34	27
Philip Morris	18	22
Phillips Petroleum	44	44
Pillsbury	136	91
Procter & Gamble	28	42
Quantum Chemical	61	
RJR Nabisco	13	17
Ralston Purina	101	198
Raytheon	169	97
Reynolds Metals	130	
Rockwell Int'l.	37	37
Rohm & Haas	168	170
Ryder System	102	69
Safeway Stores	195	
Santa Fe Southern Pacific	39	43
Sara Lee	72	168
Schering-Plough	120	163
Scott Paper	107	150
Service Merchandise	150	
SmithKline Beckman	67	77
Southern New England Tel.	170	144
Southwestern Bell	21	20
Squibb	139	72
Stone Container	189	
Sun	32	119
TRW	90	120
TW Services	172	
Tenneco	33	47
Texaco	5	8
Texas Instruments	121	
Textron	133	155
Time	176	116
Times Mirror	128	159
Triangle Industries	185	
Tribune	153	149
Trans World Airlines	109	
USX	58	26
USG	123	169
Union Camp	132	154
Union Carbide	97	34
Union Pacific	47	29
Union Texas Petroleum	152	
Unisys	30	49
United Technologies	45	
United Parcel Service	41	46
USAir	110	179
US West	20	21
United Telecommunications	52	61
Unocal	40	30
Upjohn	125	143
VF	186	
Viacom	166	
Wal-Mart Stores	143	142
Warner Communications	114	151
Warner-Lambert	126	107
Waste Management	86	63
Westvaco	162	174
Weyerhaeuser	69	100
Wheeling-Pittsburgh Steel	196	
Woolworth (F.W.)	147	164
Xerox	157	28

DEFINITIONS AND FOOTNOTES

Definitions:

☐ Cash Flow: funds from operations, derived from net income (minus extraordinary items) plus depreciation and deferred taxes, and also adjusted for changes from the prior year in current receivables, current assets other than cash and cash equivalents, current accounts payable, income taxes payable and other current liabilities except notes payable and debt due within one year.

☐ Percentage change in cash flow from operations: current cash flow divided by the prior year's cash flow.

☐ Discretionary cash flow from operations: cash flow from operations minus capital expenditures, total dividends and debt due in one year as reported in prior year's statement.

☐ Return on common equity: net income available for common shareholders divided by stockholders' equity—that is, common stock plus capital surplus and retained earnings.

☐ Debt as a percentage of equity: the ratio of total debt to total equity. It is calculated by taking long-term debt plus the portion of long-term debt due in one year plus notes payable and dividing the total by stockholders' equity.

☐ The market value/cash flow ratio is arrived at by multiplying the number of shares outstanding on December 31, 1987 by the share price of that day and then dividing that result by the cash flow.

Abbreviations:

CF: combined figure (calculation cannot be done because the company did not report individual items). NM: not meaningful (equation contains one or more negative numbers). NA: not available.

Footnotes:

1. For fiscal year ended April 30, 1987. 2. For fiscal year ended May 31, 1987. 3. For fiscal year ended June 30, 1987. 4. For fiscal year ended July 31, 1987. 5. For fiscal year ended August 31, 1987. 6. For fiscal year ended September 30, 1987. 7. For fiscal year ended October 31, 1987. 8. For fiscal year ended November 30, 1987. 9. For fiscal year ended January 31, 1988. † The net income reported by these companies includes items that are normally excluded in our calculations.

Source:

The study is drawn from the Standard & Poor's Compustat data base of 7,193 companies, from which were eliminated financial companies (savings and loans, banks, insurance companies, securities firms and finance companies), and companies with more than 50 percent of profits from domestic finance subsidiaries and regulated gas and electric utilities.

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THE Q&A/WALTER B. WRISTON

them and pay off depositors and kiss them goodbye? Or should they try to merge them with a stronger thrift and provide some federal assistance? The latter procedure seems to be more common.

Q Is it working?

A Well, I think that at some point, on a case-by-case basis, the regulators are going to have to decide whether their limited resources should be used to preserve a dead horse. I think the jury is out. Instead of trying to save every S&L in Texas, they may have to liquidate some of them. And that's a tough step. Should we have saved the Packard? It was a wonderful car. But why should General Motors be taxed to save its competitor? We should—and must—protect the small depositor, and let others take their chances.

Q Isn't that a fairly radical political idea?

A Well, it depends on whether you want to protect fat cats or the common man. And I hear from Jesse Jackson that we ought not protect the fat cats. A guy who put a million dollars in an S&L to get two percentage points more in interest than he could get at a commercial bank took a risk to get that reward. When the S&L fails he then comes and cries all over the rug for the government to do something. I don't have much sympathy for him.

The taxpayers can't underwrite all the bad management in the world. S&Ls that have run their business well enough to survive in the wildly changing climate are being penalized because they must pay substantially higher premiums to the FSLIC to pay for the bailouts of their poorly managed brethren. So the more successful they are, the more they're penalized. Nice, in a good socialist society. But Darwin had a book on the subject. If your magazine is failing, should the Federal Magazine Insurance Corporation bail you out?

Q Doesn't the effort to bail out the S&Ls stem from their clout in Washington?

A Without a doubt. Jim Wright, the Speaker of the House, is a Texan, and he is trying to protect his constituents. So, like anything else, it's a political problem.

Q There is a drive in Congress to repeal the Glass-Steagall Act, which bars banks from the securities business. The law was passed after the bank failures following the 1929 crash, when many banks lost depositors' money in the market. After the 1987 crash, which saw some banks take huge losses in trading securities options, is this the time to kill Glass-Steagall?

A The bank failures after 1929 had nothing to do with the banks' role in the securities business. Banks failed for the simple reason that the Federal Reserve did not supply enough liquidity to the banking system. Keeping the banks out of the securities business simply preserves the present monopoly the securities firms have.

Q If Glass-Steagall is repealed, do you expect the banks to get into trouble in the securities business?

A Of course. Everybody gets into trouble in the securities business. People get into trouble in every business; magazines fail every day. There will be winners and there will be losers.

Q How much of a danger to the banking system is posed by the huge debts of the developing countries?

A Very little. What is not understood is that the Federal Reserve arrogated unto itself the negotiation of the Mexican debt. At the beginning of 1987, Paul Volcker negotiated a deal with the Mexican government at below-market rates, and he forced the banks to take it.

Q Did you support last year's decision by John Reed, the CEO of Citicorp, to write off the debt of the developing nations?

A I said the day he did it that taking the reserve was brilliant. Reed said, "I will negotiate for myself, thank you very much." That is the greatest unwritten story in American finance.

Q Didn't his decision say in effect that those loans were a bad idea in the first place?

A No, because the world had changed. And when the world changes, you do something else. There's nothing dumber than continuing to do what you were doing in a different world.

Q So if you had to do it all over again, you would make those loans?

A Yes. The recycling of the OPEC dollars kept the world afloat. We didn't know that OPEC would be broken or that the Fed would bring us the greatest recession since the 1930s.

Q So you blame it all on Volcker?

A No, of course not. But the fact is that he locked the wheels of the world. Credit was much too tight. What it did was cause a worldwide recession. It caused many domestic companies, farmers and

LESTER THUROW ON MANAGEMENT GUILT, LEONARD SILK O MICS

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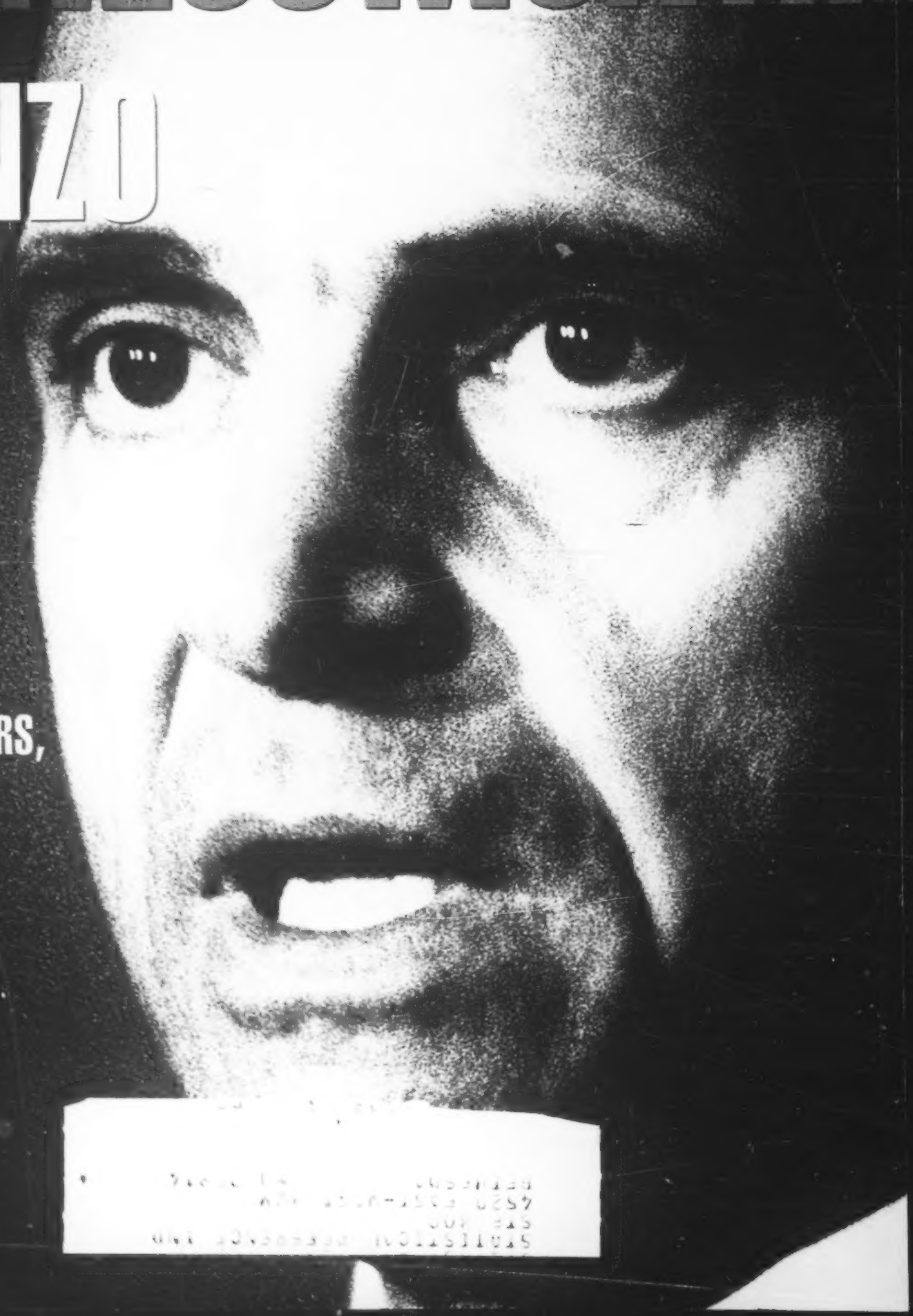

LORENZO AND THE MYTH OF TEXAS AIR

By Michael Ennis

HERE COMES BIG LABOR AGAIN

By A.H. Raskin

AMERICAN MANAGERS, JAPANESE BOSSES: A VERY BAD MIX

By Leah Nathans

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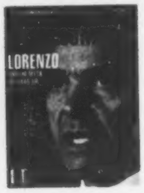

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COVER PHOTOGRAPH: BRUCE HOERTEL/GAMMA LIAISON

FROM THE EDITOR IN CHIEF

As BUSINESS MONTH enters its 96th year of publication, having covered the great events of its time, it looks to the future. Corporations from midsize to very grand know that an eye on the short term, an overemphasis on the bottom line, an obsession with the immediate, will not cut it as they, and we, scramble as best we can toward the 21st century. The issues of tomorrow must be defined—some we know, of course; information technology has about it the aura of manifest destiny—and then studied and restudied and applied. The very process of management must be examined and explained. Trends must be discerned, patterns detected in the massive weave of progress. What is real and what is transitory? What is laudable and what is mean? What has value and what is worthless? We will be posing questions as the months and years go by, and trying to supply some answers as to what's ahead in corporate life.

•

Whither Texas Air? And what of Frank Lorenzo, the Green Baron, the Duke of Discounts, the man who took over an airline under perfectly hostile conditions? What will happen on legal, labor and safety fronts? Can Continental get the damned thing off the ground? The very private Lorenzo betrays no great worry, but others—from government regulators to admiring corporate competitors—are concerned indeed about the astonishing range of problems in the vast Lorenzo air squadron. What happens to him may have profound effects on the industry at large.

Lorenzo and the brouhaha concerning Texas Air and all the little Airs is the cover story this month.

One of those subsidiaries is Eastern Air Lines, formerly run by the ex-astronaut Frank Borman. How he got to be formerly—that is, how the unions and Frank Lorenzo combined to relieve him of his command—is the subject of a book we are excerpting. It's part of the package.

•

In a survey of more than 600 chief executive officers of major American corporations, commissioned last year by BUSINESS MONTH, the "marketing-intelligence" firm of Yankelovich Clancy Shulman turned up this piece of information: Businessmen don't take unions seriously anymore. Concern over power of the unions was far down the list of worries, in fact. Marching ahead were such issues as the federal deficit, government regulation, recession, foreign competition, tax policy, the trade deficit, inflation, quality of middle management.

This odd bit of information nagged at us. Had not labor been the bane of corporate existence for decades? Why the slippage? Was it real? Most important, was it lasting? That is, what does the future hold for the labor movement, and what should corporate America know about it?

No writer in America is better qualified to answer those questions than A.H. Raskin, for many years the labor correspondent of *The New York Times*. He took on the task for BUSINESS MONTH, and his report is startling and provocative. It is a Special Report that should not be missed.

JOHN VAN DOORN

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NORA FELLER

PERSPECTIVE

California's Big Bang

HIGH NOON FOR CALIFORNIA'S insurance industry and trial lawyers will be the first Tuesday of November this year. That is when they face off in a statewide referendum that will leave one or the other seriously wounded. And because California is a large and important market for both groups, any controls placed on insurance premiums or legal fees there will reverberate throughout the loser's industry nationwide.

The shoot-out started when the insurance companies, claiming that too many lawsuits were hurting consumers by driving premiums up, sponsored ballot measures that would forever exempt the industry from the state's antitrust laws and introduce no-fault automobile insurance. But what got lawyers all riled up was an attempt to cap attorneys' fees in all tort cases, including lucrative class-action product-liability suits.

Faced with a significant reduction in their income potential, the state's trial lawyers put together a coalition with consumer groups to fight back, claiming that increased insurance rates are due to insurers' greed. Their ballot counter-initiative mandates an insurance commissioner who would have the power to review and regulate insurance rates and a 20 percent good-driver reduction in automobile insurance premiums to go into effect January 2, 1989. Attorneys' fees, needless to say, will not be subject to any restrictions; "freedom of contract" is the watchword here. And if lawyers and consumer advocates aren't strange enough bedfellows, the banking industry has also joined their cause. It seems the initiative allows banks to sell insurance.

—*Larry White*

WHY CALIFORNIA INSURERS SEE RED

While Golden State lawyers campaign for lower insurance premiums, underwriters complain that they're already being nibbled to death by claims and lawsuits. Mounting losses on auto policies tend to support their case.

Year	Auto Premiums* (in billions)	Auto Claims Paid† (in billions)	Auto Insurance Profits and (Losses)* (in millions)	Auto Related Lawsuits‡
1982	$4.6	$3.1	$69.2	50,180
1983	$5.0	$3.4	($25.9)	51,560
1984	$5.6	$3.8	($30.5)	55,297
1985	$6.7	$4.4	($68.9)	63,750
1986	$8.2	$5.9	($71.8)	82,258

*Source: National Association of Insurance Commissioners. †Source: A.M. Best. ‡Source: 1988 Annual Report of the Judiciary Council of California. Compiled by Fred F. Jespersen

What Politicians Do To Survive

JOHN D. ROCKEFELLER and Andrew Carnegie must be spinning in their graves with delight over a program proposed by Lloyd Bentsen, U.S. Senator from Texas and Democratic running mate, as part of the interior appropriations bill. It would exempt oil companies from compliance with federal antitrust laws. The measure is needed, according to Bentsen, so that long-suffering American oil companies can "work together in research on enhanced [oil] recovery," which would in turn improve U.S. energy self-sufficiency by increasing recovery rates from known oil deposits. "Let's do it on behalf of recovery," Bentsen suggested. Of course, the proposal fails to mention whether oil companies would also be working together on such things as pricing and market-share division, which were the types of cooperative activities that got the Standard Oil Trust and United States Steel in trouble with Teddy Roosevelt's trustbusters in the first place.

—*Laurel Brubaker Calkins*

ROB KINMONTH

Senator Lloyd Bentsen offers oil companies some relief from antitrust.

Your Wish Is Their Command

NO ONE WAITED MORE eagerly than the business community for the first full session of a U.S. Supreme Court loaded with Reagan-appointed justices, and the 1987–88 term did provide good news—up to a point.

Testing the court's leanings were four cases that read like a business wish list:

- From corporations selling to the government: Don't make us legally responsible for the majority of deaths and injuries caused by equipment we manufacture according to government specifications.
- From companies that run "gray market" discount stores: Allow us to sell imported, brand name cameras, perfumes, watches, automobiles, cosmetics, electronics products and other goods at steep price reductions without interference from the owners of the trademarks.
- From manufacturers: Say we won't automatically violate antitrust laws if we protect our dealers by cutting off supplies to price slashers.
- From employers whose pension plans previously discriminated between men and women: Don't force us to pay tens of millions of dollars to workers who retired before the Supreme Court outlawed sex bias in pension benefits in 1983.

The Supreme Court granted all four wishes, and a key factor was the emerging conservative majority: William H. Rehnquist, the President's choice for chief justice; Sandra Day O'Connor; Antonin Scalia; and Anthony M. Kennedy. They and Justice Byron R. White formed the 5-4 majority in the pension and government contractor decisions.

But the trend, if that's what it is, must be rated shaky at best. The conservative majority remains narrow, fragile and shifting. In the 5-to-4 "gray market" decision, for example, the winners were dis-

SKY KING

Frank Lorenzo built the world's biggest airline company on reckless price cutting, government aid and lots of debt. He will need a miracle to keep it flying.

BY MICHAEL ENNIS

When Frank Lorenzo, the wiry, reserved chairman of Texas Air Corporation, confronted a Washington news conference in June, he was smiling at circumstances that would have wiped the grin off most CEOs' faces. True, Texas Air's two key subsidiaries, Eastern and Continental airlines, which together comprise the free world's largest commercial airline fleet (650 aircraft), had just passed an unprecedented investigation by the Department of Transportation into its safety compliance and fiscal fitness. But that was the only bright spot in a gathering storm. The department had added an important caveat to its report, warning that Eastern's troubled labor-management relations could cause serious safety problems in the future; the U.S. House of Representatives had a resolution in the works that would continue scrutiny of Texas Air; and House Aviation Subcommittee members hinted they might disagree publicly with some of the DOT's conclusions. Eastern's unions already had, calling the report a "whitewash," and financial analysts pointed out that the DOT, which described the figures it used as "optimistic," had glossed over the liquidity crunch. Finally, beyond the purview of the investigation was the long-term outlook: Lorenzo's $8.4 billion air empire was so deeply in hock it would need at least a billion dollars this year just to service its debts.

It is easy to assume that Lorenzo, long the recognized standard-bearer for the free-market conquest of the aviation industry, wouldn't have it any other way. He has been credited—not always accurately—as the first airline chief to offer discount fares, the first to attempt a hostile takeover of another airline and the first to take a solvent airline into bankruptcy to abrogate onerous labor agreements. An undisputed wizard of leverage and a relentless proselytizer for unfettered commerce, Lorenzo has become not only the personification of airline deregulation but also a bankable superstar among '80s business celebrities.

Unlike many of his fellow corporate luminaries, Lorenzo, the man, has remained

PAUL FUSCO/MAGNUM

LEGEND DESCRIBES LORENZO AS A RUTHLESS APOSTLE OF ECONOMIC DARWINISM.

AP/WIDE WORLD

a mystery; he rarely grants interviews and has steadfastly refused to answer personal questions. When he does reveal himself, it is in a curiously utilitarian fashion: He wants to be seen as a lean and hungry cost cutter, for example, so we learn that he competes in marathons; he protests that he isn't a union buster, so we hear how he put himself through Columbia University as a rank-and-file Teamster; he wants to charm disenchanted employees, so we are informed that he is a family man, with a wife, four children and a relatively modest home in a Houston suburb. Such a lusterless mosaic of the private Lorenzo suggests that we aren't missing much by being denied more intimate particulars.

More is known about the public man, but here, too, reality is obscured—by business-press hyperbole, Wall Street wish fulfillment and union propaganda. The Lorenzo legend—like his debt—has been rolled over for so many years that the myth now conceals history. The businessman we see is a caricature in black and white, a hard-charging, freewheeling, ruthlessly efficient apostle of economic Darwinism, but beneath the accretion of clichés is a gray, tentative figure who has never flourished in straight-up deregulated competition and has been kept aloft by the very courts and government agencies whose control of the aviation industry he has so often disparaged.

The opening chapter in any standard hagiography of Frank Lorenzo is the resurrection of Texas International Airlines. By the summer of 1986, after Lorenzo had commandeered Eastern, brought Continental out of bankruptcy and boosted Texas Air stock to $51.50 a share, Texas International had been canonized as his first certified miracle. And it is here that we begin our search for the man behind the myth. To understand how Lorenzo really works—and why his Texas Air empire doesn't—requires a closer examination of the litany of Lorenzo miracles.

Francisco Anthony Lorenzo was born in Queens, New York, to parents who had emigrated from Spain as children. He received an MBA from Harvard in 1963 and put in a couple of years as a financial analyst for Trans World and Eastern airlines. In 1966 he and Bob Carney, a Harvard classmate, formed Lorenzo, Carney & Company, a consulting firm that matched Wall Street financiers with needy airlines. Three years later, they incorporated an aircraft-leasing business called Jet Capital, but by the time they were able to get the company up to speed in early 1971, two years of recession had dampened the aircraft-leasing outlook. The best investment opportunities in aviation turned out to be small regional airlines, which had suffered even more from the economic downturn than had the major trunk lines.

Jet Capital, flush with $1.5 million in cash raised through a public offering of common stock and warrants, made a run at Mohawk, a carrier based in Utica, New York, and failed. Then Chase Manhattan Bank, chief lender to Texas International, dropped that company into Jet Capital's lap. The bank had summoned Lorenzo and Carney to Houston as $15,000-a-month consultants to come up with a plan to save the struggling carrier. Formerly Trans-Texas Airways, TI was based in Houston and had routes throughout the Southwest. Despite later, myth-building characterizations of pre-Lorenzo Texas International as a chewing-gum-and-baling-wire operation, what Lorenzo found when he looked it over was "basically a very good route structure, good people and good equipment." In fact TI had done well enough in the 1960s to have committed the cardinal sin of airline management: overoptimistic expansion. With a fleet of 15 new DC-9s and a whopping debt service to match, the airline wasn't prepared for the slump that settled over the industry from 1969 through 1971 and lost a total of close to $20 million.

Lorenzo and Carney's solution took the form of an investment package whose main elements were classic Lorenzo: leverage and control. Building around Jet Capital's $1.5 million in cash, they put together a $35 million equity-financing plan that would give Jet Capital 24 percent of Texas International's stock and 58 percent of its voting power. The plan was approved by the shareholders, and in August 1972 Frank Lorenzo was elected president and chief executive of Texas International. He had virtually no experience in day-to-day airline management, but he had taken over at an unusually propitious time. The outlook for regional airlines had improved dramatically toward the end of 1971, and strong industry-wide gains would be registered throughout the rest of the decade. On top of that, in February 1971 the Civil Aeronautics Board voted to double the $24 million in annual subsidies it was paying nine regional airlines for their losses on unprofitable short-haul routes. Even as the profit outlook improved, the CAB continued to pay the vastly increased subsidies. By the time the agency decided to suspend Texas International's payments after fiscal 1978, the airline, which had made a total of $20 million in net profits until then, had received about $50 million from the CAB. Almost half of Texas International's return was due to the subsidies, according to the agency's computations. Of course, those were the rules everyone played by under regulation, at least until the CAB began to encourage Lorenzo to break them—by discounting prices—at the same time that it was, in effect, paying him for playing fair.

Texas International earned modest profits in 1973–74, then weathered a three-month shutdown when ground and air crews struck in the winter of 1975. Since industry strike-aid payments kept the airline afloat at the break-even point, Lorenzo took advantage of the hiatus to prune unprofitable routes, trim his work force and move his debt balloon a few more years down the road. TI emerged from the labor strife stronger than ever, with three boom years for the industry and a burgeoning Sunbelt economy still ahead. The only cloud on this horizon was Southwest Airlines, an upstart intrastate commuter line founded in 1971. Regulated by the state of Texas instead of the CAB, Southwest could operate virtually like today's deregulated airlines, setting its fares and selecting its routes without waiting for the board's approval.

Texas International got enough action to turn a $3.2 million profit in 1976, but it still needed a competitive edge against Southwest, which was using its low fares and exclusive landing rights at Dallas's close-in Love Field to lock up the lucrative Dallas-to-Houston route. Lorenzo turned to his benefactor, the Civil Aeronautics

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SAFETY QUESTIONS THAT WON'T STOP

The Department of Transportation's report on Texas Air, released in June, was mostly a relief for the embattled airline company, but it fell short of providing the flying public with a definitive answer to the crucial question: Is it safe to fly with Frank Lorenzo?

A Federal Aviation Administration inspection of the Eastern and Continental fleets conducted over a 30-day period in the spring did answer part of the question. These so-called ramp inspections, which involved a 25- to 45-minute look inside and outside every aircraft and an examination of the maintenance logbooks, supplied the raw data for the DOT's investigation, and the rulings were basically favorable to Continental. None of its aircraft was grounded as result of the ramp inspections, although a fifth of the fleet—not an unduly large number—was voluntarily removed from service until various maintenance problems, mostly minor, were attended to.

Although Eastern had, in the FAA's own words; "a history of significant noncompliance" before Texas Air acquired it—the airline was slapped with a record $9.5 million fine after dozens of airworthiness violations were uncovered in a 1985–86 inspection—under Lorenzo's aegis, spending on maintenance had actually increased to a level well above the industry average, and an FAA inspection last year showed considerable improvement in safety compliance. Still, serious problems did remain. Eastern voluntarily removed a third of its fleet from service as a result of the ramp inspections, and the FAA concluded that quality assurance at Eastern's 28 line-maintenance facilities was "almost nonexistent."

The real danger for Texas Air, it seems, arises from the continuing labor problems. A team of six FAA executives conducted a separate inquiry into labor-management relations this spring and reported "a strong concern about the present labor-management culture inside the company and its potential impact on safety." Their report led to arbitration by former Labor Secretary William Brock and an agreement in early July between Eastern and its unions to separate safety issues from the vitriolic dispute over wages.

But even a significant improvement in an atmosphere Brock described as "poisoned" may not be enough to allay long-term concerns. An airline's safety ultimately rests in the hands of its mechanics and pilots, who not only approve or reject aircraft for service on a daily basis, but also provide crucial on-the-job instruction to their less-experienced colleagues. Eastern's pilots are leaving at almost three times the industry average, many of them senior flight officers taking early retirement to lock in their pension benefits, and mechanics, who can easily find better wages elsewhere, are exiting even faster.

Continental has lost personnel at a rate almost as troubling as Eastern's, but the airline has attempted to deal with the shortage through an innovative program that starts pilots at its regional "feeder" subsidiaries, then moves them up, seniority intact, to the big jets when they have the requisite hours. Even so, according to John Bradley, director of organizing for the Airline Pilots Association, many of Continental's regional pilots are sacrificing their seniority and moving to other airlines once they are qualified. There is speculation in the industry that the shortage at Continental may have already contributed to tragedy. The only fatal accident involving a Frank Lorenzo-controlled airline occurred last November in Denver when a Continental DC-9 flipped while taking off in a snowstorm, killing 28 people. The copilot, a 26-year-old with fewer than 40 hours of flying time in DC-9s, was at the controls. However, the National Transportation Safety Board will not rule on the official cause of the crash until September 13.—M.E.

Board, and asked for permission to reduce fares by 50 percent on certain low-density flights to 11 cities. If he couldn't undercut Southwest in Dallas and Houston, perhaps he could undercut his regulated competition on interstate routes. As it turned out, Lorenzo's request, which threatened the very foundations of the carefully constructed edifice of airline regulation, was exactly what the CAB wanted to hear.

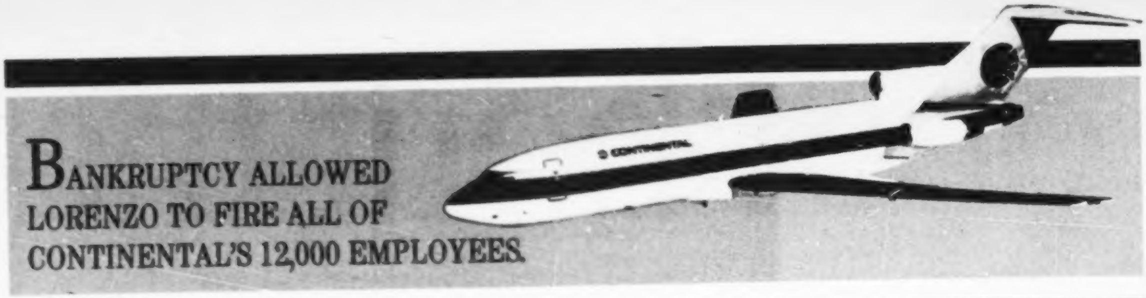
John Robson took over as head of the CAB in 1975 with the singular objective of putting the regulatory agency onto a self-destruct heading that would culminate in a free-market airline industry. He and his young staff believed with almost evangelical fervor in the elasticity of the air-travel market: Lower fares brought about by free-market competition would release a stampede of consumers who had previously found flying prohibitively expensive. The vast new market would fill empty seats, and the industry would rake in higher profits in spite of reduced per-passenger revenues. When Lorenzo appeared with his request for discounted fares, the elasticity theory suddenly had its first test case. He got approval in less than two months.

Texas International marketed its new discount rates as "peanuts fares," and the success of the pricing strategy seemed immediately to confirm the deregulationists' forecasts. One flight between Albuquerque and Los Angeles, only 30 percent full at $76 dollars a ticket, filled 90 percent of its seats at half fare, lifting revenues on the flight by 75 percent. Within months the Civil Aeronautics Board extended its permission for peanuts fares to additional markets. With a CAB subsidy in one hand and a CAB dispensation to explore the free market in the other, Lorenzo and Texas International earned more than $20 million over the next two years.

The peanuts fares might have remained a footnote in aviation history had Lorenzo not announced, in the summer of 1978, that Texas International had bought 9.2 percent of the stock in National Airlines, a major trunk carrier based in Miami. Lorenzo's airline wasn't the first to covet National; Pan American World Airways, seeking domestic feeder routes for its international flights, had secretly approached National earlier in the year. But Lorenzo, who eventually acquired almost 25 percent of the company's stock, was the first to openly declare his intentions and receive the accompanying publicity. Even when Pan American beat him out after a year of dickering with the CAB and National's management, the brash Lorenzo came off like a winner for simply making the challenge. Texas International made a pretax profit of $46 million when it sold its shares in National to Pan American in the summer of 1979. Of TI's impressive $41 million net income that year, less than $7 million was accounted for by actual profits from operations.

Although the CAB would not allow unrestricted entry to domestic routes until the end of 1981 and would not eliminate all price restrictions until January 1, 1983 (the agency terminated itself exactly two years later), its acquiescence on the National-Pan American merger signaled to America's airlines that they had better begin preparing for the coming fury of free-market competition. There was considerable confusion, however, about what form the new airlines should take to compete effectively in the deregulated skies. Briefly in vogue was the "upstart" theory, which held that such small, never-regulated airlines as Southwest would quickly outmaneuver the lumbering, regulation-configured major trunk carriers. Lorenzo tested

BANKRUPTCY ALLOWED LORENZO TO FIRE ALL OF CONTINENTAL'S 12,000 EMPLOYEES.



UPI/BETTMANN

this thesis in 1980 by creating nonunion New York Air, which consistently lost money for the next six years as it tried to compete with Eastern's New York-Washington shuttle.

More enduring was the countervailing "two airline" theory, which had been tossed about for years by the academicians at the CAB. In this world, the big would indeed get bigger, gradually gobbling up those airlines that could not obtain a competitive "critical mass." The ultimate extrapolation would lead to an industry made up of two ultra-efficient leviathans going toe-to-toe, although an industry with five or six major carriers—the situation that exists today—would also validate the theory.

Lorenzo eventually opted to get big. In September 1979 he had as much as $100 million in cash from the sale of National's stock and the issue of more than $50 million worth of equipment-trust certificates secured by Texas International's aircraft. Eager to use his purchasing power, he invited Trans World Airline's chairman, Edwin Smart, to breakfast at the Hotel Carlyle in New York and offered to buy TWA, which was 10 times the size of Texas International. The enraged Smart stalked out without eating. Lorenzo was undeterred by the rebuke; he knew there were plenty of airlines to choose from.

Texas Air Corporation, which was formed in June 1980 as a holding company for Texas International and New York Air, purchased a 9.5 percent interest in the stock of Continental Airlines, the nation's 10th largest carrier, in early 1981 and announced that it intended to make an offer for a controlling interest. The takeover was complicated by the attempts of Continental's employees to buy the company. (Lorenzo's establishment of nonunion New York Air had been a red flag for airline workers.) The drama reached a tragic pitch with the suicide of Continental's dispirited president, Alvin L. Feldman, in August 1981.

At the time many observers wondered why Lorenzo wanted an airline that had lost $55 million in the preceding 18 months, but his two extant carriers were going nowhere—Texas International lost $34 million in 1981—and he needed to make a move. Continental, even with its losses, was a "premier service" airline (Chivas Regal scotch was served in economy class) with a good reputation among business travelers, a market that TI, with its leisure-oriented route structure and sloppy service, had never been able to tap. If there was any kind of industry-wide upturn, Texas Air could combine the two airlines into a profitable critical mass.

It was not to be. Although the major airlines struggled in 1981 and 1982, most were able to contain their losses in the latter year and build on a strong upward surge in 1983 to record profits in 1984. For Texas Air, on the other hand, the situation went from bad to worse. Texas International was merged into Continental in 1982, and the new team generated more than $100 million in operating losses.

Lorenzo, not without cause, blamed high labor costs for his difficulties. Flight attendants—who were averaging $39,000 a year in wages and benefits—and pilots offered $80 million in concessions, but Lorenzo wanted more and set a September 19 deadline for an agreement on an additional $150 million from the workers. It wasn't an environment that encouraged a lot of self-sacrifice. A number of Lorenzo's new management elite were the same young ex-CAB staff members who had formulated deregulation theory, and they had little patience with real world impediments to their sophisticated ideology. Five days after his ultimatum, Lorenzo announced that the airline was filing for reorganization under Chapter 11 of the federal bankruptcy law.

The Chapter 11 filing was a huge success. Lorenzo fired all 12,000 employees, then invited 4,000 back at anywhere from 40 percent to 60 percent of their previous wages. With both the airline industry and the economy still struggling, most of them returned. When the Airline Pilots Association struck the airline a few days later, many pilots crossed the picket lines and eventually voted to forgo representation by the union altogether. Within three days of the filing, Lorenzo's scaled-down "New Continental" was flying again, offering $49 fares for any nonstop domestic flight.

It appeared that Lorenzo had created a formidable deregulation flying machine. Since labor costs had been cut by more than $250 million a year and were now the lowest in the industry, Continental could offer lower fares than any of its major trunk competitors, most of whom cut back on their schedules after growing weary of trying to match the discounted fares. Continental's flights were so glutted that the bankrupt airline had to order dozens of new jets.

The new Continental flew under Chapter 11 for three weeks short of three years and earned more than $150 million in total profits during that period. When the carrier emerged from bankruptcy, it was operating a fleet of 147 aircraft versus 105 three years earlier. Here was conclusive proof of market elasticity. Unfortunately, there was a billion-dollar glitch in the equation—exactly the amount of the interest payments and long-term debt maturities that had been deferred while Continental financed upward of a billion dollars' worth of new planes. As long as it was protected from its creditors, the airline could make money. If it had been obligated to service its debts, it would have been a major loser during a period when the rest of the industry showed record profits. Nevertheless, Continental's emergence from Chapter 11 was widely hailed as another Lorenzo miracle.

Since it was clear to anyone who could read the balance sheets that Continental wasn't competitive outside the bubble of Chapter 11, Lorenzo began working to build a "mega-carrier," to use his own term, well before the airline emerged from bankruptcy. In the summer of 1985, Texas Air made another bid for TWA. Again unions played a critical role in Lorenzo's negotiations, this time by siding with Carl Icahn, who wound up with the company. Unfazed as usual, Lorenzo turned his sights on the only airline whose unions so despised their own president that they would actually prefer Frank Lorenzo: Eastern and Frank Borman (see "Showdown in Miami," p. 39). In February 1986, Texas Air nailed down a $640-million deal to acquire Eastern, its fleet of 300 aircraft, and its System One computer reservation operation—a crucial tool for deregulation-era fare juggling. The price was generally regarded as a steal; Eastern's cash balance of $463 million was more than Texas Air's cash outlay. But Eastern was also heavily in debt, with more than $3 billion in obligations. (Its alarming 87 percent debt-to-equity ratio was still less than Continental's post-bankruptcy 95 percent.) In the week following the deal, Texas Air stock climbed from $17 to $28 a share.

The acquisition of Eastern did not help Continental gain critical mass after all, because to merge the two airlines would permit Eastern's unions to bargain for Continental's nonunion employees. So Lorenzo still needed an ideal mate for Continental, and he found it in People Express, the nonunion, employee-owned discount airline founded by Donald Burr, a former Lorenzo lieutenant. The airline had been battered into bankruptcy by Chapter 11-assisted Continental. In September 1986, Burr grudgingly accepted Lorenzo's offer for People Express and its subsidiary, Frontier Airlines. Texas Air picked up 110 planes, about 1,000 nonunion pilots and $750 million more in long-term debt.

After absorbing People Express and Frontier, Continental, with its fleet of 352 planes, became a bona fide mega-carrier. The overall Texas Air strategy was for Continental, with its low nonunion costs, to drive company earnings while Lorenzo attacked Eastern's high labor bill. Eastern's unions were a notoriously tough bunch, but Texas Air's management felt they could be tamed by the threat of transferring Eastern's planes, routes and jobs to Continental, whose success would be the big stick against Eastern's unions.

The plan immediately went awry. Texas Air had formulated virtually no plans for the merger of "cheap frills" Continental and "no-frills" People and was surprised to find that many of its new employees were unable to handle jetways or operate reservations and ticketing computers. Behind the scenes, planes went wanting for spare parts, and the 13 different types of aircraft now operated by Continental made a farce of the standardization procedures necessary for mega-carrier efficiency. Texas Air exacerbated the inherent problems by frantically shifting managerial personnel in the midst of the crisis. Employee morale, which had remained relatively high through the Chapter 11 period, now plummeted, and Continental's pilots began to leave at twice the normal industry rate, adding to the work load of the remaining aircrews. The Department of Transportation collected record numbers of consumer complaints, and the airline lost $40 million in the first quarter of 1987 on the way to dropping $258 million for the year. Eastern, by contrast, showed a second-quarter profit of $27 million.

Confronted with the collapse of its original strategy for bringing Eastern's unions in line, Texas Air embarked on a plan designed to increase Eastern's liquidity in the event of a strike by members of the International Association of Machinists, whose contract expired last December 31. Eastern's unions countered that Lorenzo was deliberately dismantling the airline. Whatever the intent, Texas Air took the computer reservation system off Eastern's hands for a $100 million note at 6.5 percent, sold 20 aircraft, put an additional 21 on the market and drew more than $100 million in cash out of Eastern through a variety of questionable transactions, including a "strike readiness" fee of $22.5 million paid to Continental and the inexplicable sale of $25 million worth of unsecured notes in bankrupt People Express to Eastern. The boldest stroke was the proposed acquisition by Texas Air of Eastern's venerable Washington-New York-Boston shuttles—believed to account for one-third of the airline's total operating profits—for $225 million. After a court fight with the unions and awaiting arbitration of Eastern's labor problems, Lorenzo backed away from the shuttle deal shortly after the DOT report was released.

Continental, meanwhile, continued to underperform even the stripped-down Eastern, losing a stunning $80 million in the first quarter of this year compared with $64.5 million at Eastern. The Transportation Department's auditors found that Texas Air's own revised cash-flow projections for Continental would be "substantially less than anticipated," while Eastern's would be higher. But amid all the smoke at the Eastern front, few people bothered to ask the salient question about Frank Lorenzo's air empire: Why can't Continental make money? The ultimate deregulation flying machine Lorenzo says he could build at Eastern—if only his unions would play fair—already exists, and it isn't getting airborne.

Continental's problems start at the top, in a Byzantine corporate structure that offers Lorenzo and Texas Air's managers control without responsibility. The leverage situation is one of the wonders of modern finance: The tiny Jet Capital, privately held by a handful of shareholders, with Lorenzo controlling a slight majority, owns just 3 percent of the equity in Texas Air but, through a special class of stock, maintains 34 percent voting control and the right to elect seven of Texas Air's 11 directors. Texas Air in turn manages more than 20 subsidiary corporations, ranging from Texas Air Fuel Management Inc., which sells fuel to all of Lorenzo's airlines, to Continental Airlines Inc. with its collection of small feeder airlines and the corporate vestiges of the companies it has absorbed. (Texas International, New York Air, People Express and Frontier no longer exist as independent carriers.)

Texas Air is not a particularly doting parent. While the corporation likes to arrange the financing for its subsidiaries, it prefers that they guarantee and service most of the debt acquired for them. As a consequence, Texas Air's own corporate debt service will run to only $82 million this year. The parent company has been accused by its unions of "upstreaming"

THE UP SIDE OF DEREGULATION

Frank Lorenzo's problems aside, deregulation has lived up to many of its advocates' predictions. There are more airlines, more passengers, bigger profits and lower fares. Whether these positive conditions survive the growth of such mega-carriers as Continental may depend on how truly competitive the deregulated market remains. And whether the discounters, such as Lorenzo, can stay airborne in it.

	BEFORE DEREGULATION* (In 1988 dollars)	AFTER DEREGULATION**
Number of airlines	36	78
Total annual industry revenues	$19.9 billion	$57 billion
Total annual industry profits	$908 million	$2.5 billion
Average number of planes per airline	55.3	47.1 (1986)
Total passengers	240 million	447 million
Average annual wage for pilots	$85,213	$80,196 (1986)
Average hourly wage for machinists	$17.00	$19.15
U.S. tax dollars paid in direct aid	$72 million	$28 million
Number of airlines that failed	5 (1979)	12
Percentage of seats filled	49.6 %	54.7%
Lowest round-trip fare, NYC to LA	$431.25	$258
Lowest round-trip fare, NYC to Des Moines, Iowa	$332	$168
Number of flights daily from NYC to LA	29	47
Number of flights daily from NYC to Des Moines	4	5

*Annual figures are for 1977 and 1978, unless noted. **Annual figures are for 1987 and 1988, unless noted.

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cash in the form of management and service fees charged its subsidiaries. Some of the accusations, despite Transportation Department waffling on the question, seem justified. Texas Air Fuel Management purports to offer Texas Air's carriers the benefit of large-volume fuel purchases, but Continental and Eastern have been charged more in fees than they save by buying their fuel from Texas Air Fuel.

Undisciplined management also keeps Texas Air from achieving the operational efficiencies supposedly available to a mega-carrier. Lorenzo has in the past boasted about his "eclectic" style of management and the freedom he offers his lieutenants to set their own hours and make their own decisions. But airlines, which require intense day-to-day supervision to eke out the extremely marginal returns on their enormous revenues, are probably not the best place for free-spirited executives. Texas Air may have too much managerial entrepreneurship for a business that is fundamentally very conservative, whatever notions one may have about the romance of flight.

Nonunion Continental also suffers from too little labor entrepreneurship. While low wages have enabled the airline to halve its labor costs compared with some of the other mega-carriers, a dispirited work force can exact a severe economic penalty in the airline business, and not simply because harried flight attendants and grouchy ticket agents are the worst form of consumer relations. "Pilots think of themselves as management," says George Hopkins, a professor of history at Western Illinois University and author of a book about the Airline Pilots Association published by Harvard University Press. "They routinely perform such management functions as deciding which approach path will save the most fuel." The same can be said of mechanics, who regularly make independent judgments that can add up to enormous profit or loss margins in the micro-managed economy of daily airline operations. No upper- or mid-level management team, no matter how creative their cost cutting, can overcome the cost disadvantage of on-line employees who feel little allegiance to the company they work for. Lorenzo's jugular attacks on labor may have been penny-wise and pound-foolish.

The real failing at Continental has been a flawed long-term strategy. Executives have paid periodic lip service to recapturing the business travelers turned off by the airline's poor service and low reliability. Yet every time Continental finds itself in a competitive situation, the reflexive response is to beat the competition on price, not performance, and hope that market elasticity will fill seats with discretionary passengers who otherwise might not have flown on any airline. In the high-flying days of 1986, Philip Bakes, president of Eastern, blithely referred to airline service as "a commodity. We're trying to build some value into it. But no matter what you do, brand loyalty will decline, and price and frequency will be the dominating forces." In the midst of Continental's massive merger woes in early 1987, the airline introduced its Max$aver fares, a full 40 percent lower than its competitors' "supersaver" fares, and the marketplace quickly exposed the limits of elasticity. Traffic did not increase enough to offset the revenue losses.

The marketplace has also assailed the deregulationists' predictions about the importance of service and image to air-travel consumers. The two most profitable airlines throughout the deregulation era have been American and Delta, both of which have relatively high labor costs and are perennial winners in customer satisfaction. American is so confident that passengers will pay extra for superior service that last fall it began to experiment with "two-tier" pricing at the discount end, offering higher fares than its competitors. As for brand loyalty, when Delta was plagued by a string of in-flight mishaps last year, there was not even a short-term decline in its bookings.

For all its problems, Lorenzo's air empire may still be saved, probably through continued sales of Eastern's assets (or perhaps what is left of the whole company, although its marketability is questionable without the computer reservation system) and, more important, the connivance of deregulation's ultimate irony: a deregulated market that is starting to look very much like the regulated market. Many major "hub" cities are now dominated by one or two mega-carriers, and the limited number of gates and landing slots—publicly financed facilities that the airlines are now permitted to own and dispose of as private property—precludes the entry of new competitors. Many experts believe that a new era of oligopoly pricing is already at hand, and the rising fares may save Lorenzo from his deregulationist pricing orthodoxy. But even to compete in such a cosseting environment, Lorenzo will have to stop whining about labor, get his managerial house in order, and formulate a pragmatic long-term strategy to make a winner out of Continental, the airline that deregulation built. If the real Frank Lorenzo, who has performed few of the prodigies attributed to his mythical alter ego, can make Continental fly, he will have performed his first real miracle. ■

A MATTER OF CONTROL

American executives in Japanese companies are well paid, but they so often lack real authority that many quit in despair. That bodes ill for Japan's U.S. strategy.

BY LEAH NATHANS

Late on a Friday afternoon in April 1987, Edward A. Neubauer, senior vice president of sales and marketing at NEC Electronics Inc., walked into the Mountain View, California, office of President Hideo Nakao and announced that he was suing the company for $18 million. It seemed a shocking move. From all appearances, Neubauer was a loyal and valuable member of NEC's senior management. In six years with the company, he had played a leading role in its drive to dominance in the U.S. semiconductor market—an achievement that earned him a seat on the board of directors.

According to Neubauer, however, his ostensibly fast-track career at NEC had become a sham: Instead of being given a promised promotion and raise, his authority had been stripped away as the company's Japanese management took increasing control. His lawsuit (see box, page 52) charges NEC Electronics and its parent, Japan's NEC Corporation, with breach of contract and other violations of California and federal laws. "Professionally, I was used," he says. "I set up the sales and marketing organization, the contacts with major customers and taught the company how to conduct business. Once I did that, my usefulness ended."

Worse was the damage to Neubauer's career. He was fired five months after suing NEC and is still unemployed. "I'm 46 years old and will probably never recover," he says. "I put my confidence in NEC at a time when I was getting offers left and right. They took the most productive years from me. I absolutely trusted these people, and they lied to me. Now all of a sudden I'm switched to a side track, watching all the express trains go by. They have devastated my career."

The Neubauer lawsuit and a handful of others like it are finally bringing to the surface the long-simmering conflict between American executives and their Japanese bosses. There are now an estimated 25,000 American managers working for Japanese companies in the United States, and by and large they seem to be an unhappy and demoralized lot. The Japanese need American executives' expertise to sell their products in the United States and are willing to pay top salaries to get them. But in company after company, the Americans complain about a system of subtle and debilitating discrimination in which they are treated as necessary but inferior outsiders—without the authority to get things done and lacking upward mobility. Their views, as well as those of a number of experts, make it clear that Japan's vaunted management methods, while generally successful on the factory floor, are a dismal failure in the executive ranks.

QUALITIES SUCH AS INDEPENDENCE, AMBITION AND RISK TAKING ARE FROWNED UPON.

This is hardly surprising, given the chasm that separates the American and Japanese corporate cultures. The qualities admired in American managers—ambition, risk taking, independence—are handicaps in Japanese companies, where group cooperation and a strict decision-making hierarchy prevail. Japanese managers generally choose a company for life, and they move up the corporate ladder very slowly and according to seniority rather than ability. Regimented in a multilayered management structure, they are known for working long hours and piling up years of unused vacation time. Japanese companies have been described as Machiavellian bureaucracies where absolute loyalty is demanded and where one wrong political move can ruin a career—dumping a promising manager into what the Japanese call the *madogiwa-zoku* (the by-the-window tribe).

As a result, the Japanese have a hard time dealing with the mobility of American executives, whose tendency to move from company to company to take advantage of better opportunities makes their loyalty automatically suspect and breeds distrust. "The Japanese think of Americans as mercenaries willing to move for money, and who will trade on connections and hand over whatever experience they have acquired at an American company," says Diane Simpson, president of Simpson International, a New York consulting firm that designs cross-cultural training programs for Japanese companies.

Added to that, American managers have to contend with the traditional xenophobia of the Japanese and their belief in their own superiority. Echoing the sentiments of a number of executives interviewed for this article, an American who heads a division in a big Japanese industrial company says that the company's Japanese president will never respect him as an

ILLUSTRATIONS BY RAFAL OLBINSKI

equal because he doesn't meet the three necessary requirements: "I wasn't born in Japan, I didn't have Japanese parents, and I wasn't educated in Japan."

"The Japanese are deeply convinced that their way of doing things is better," says Thomas K. McCraw, a professor of business administration at the Harvard Business School and editor of a book on U.S.-Japan economic rivalry. "They're like the British in Victorian England, who figured we're so good at it, there's no point in arguing."

The basic problem is control. Relative newcomers at managing multinational companies, the Japanese run their U.S. subsidiaries not as separate operations but through vertical lines of authority that stretch across the Pacific at every management level. The subsidiaries have a very low level of autonomy, says Clyde V. Prestowitz Jr., a former counselor for Japanese affairs at the U.S. Commerce Department, and critical decisions, whether in pricing, production, personnel or finance, are made in Japan.

Japanese managers seldom report to an American. And every American manager has a Japanese counterpart—or "shadow"—who officially serves as the communications liaison with the company in Japan but whose real job is to watch over the American and get headquarters' approval for decisions made. A study on the organization of Japanese subsidiaries in the United States by The Boston Consulting Group shows that while the formal corporate chain of command includes American executives at the second or third level, the actual decision-making system cuts out the Americans altogether.

BUSINESS IS CONDUCTED AT NIGHT ON THE PHONE BETWEEN JAPANESE.

"You have a situation in which business is conducted at night on the telephone in Japanese between Japanese," says Kazuo Nomura, who is counsel for The Boston Consulting Group and helped put the study together. "They come back in the morning and tell the Americans what has been decided, and sometimes they even make it seem like the Americans made the decision."

"The shadow system has been in place in every Japanese company I've been with," says J. Paul Michie, an American who has held high-level executive jobs with both Panasonic and Toshiba and is now a consultant at Samsung, a Korean consumer-electronics giant. "In all divisions, the shadow is there, someone who can say, 'This is the way it will be done.' "

Nomura, a Japanese national who was president of Sumitomo Electric Company in New York, believes that the problem starts at the highest level of the subsidiary, with the Japanese president who is not really running the show but carrying out orders made by company officials far from the firing line in Japan. He may disagree with their decisions but does not want to jeopardize his career by making a "mistake." So he is inclined to simply go along rather than do what he knows is best for the local market.

This same mind-set is evident all the way down the line. The Japanese manager's first priority is to maintain a good relationship with his superiors in Japan, since that is what his future depends on. One American recalls that when he was national sales manager for a major consumer-electronics company, he tried to get his Japanese general manager to start making liquid-crystal-display television sets. But the manager's primary concern was landing a good position when he returned to Japan, and the last thing he wanted to do was fight for a new product. Another American says that his Japanese subordinate would try to curry favor back home by ordering large volumes of difficult-to-sell products from the company's Japanese factory.

The problem is exacerbated by the Japanese rotation system of posting executives to the United States for three to five years. Hardly has a Japanese executive made headway in understanding the U.S. market and establishing relationships with the company's American managers than he is replaced by someone else, who has to start from square one. "It's like the Romans when they conquered a territory," says the human-resources manager of a Japanese electronics company. "They would leave a puppet government behind, and when their officials started showing empathy for the locals, they would bring them back and replace them with others who were more loyal."

That was much the situation that Edward Neubauer ran into at NEC Electronics. Keiske Yawata, a NEC executive who had studied in the United States and spoke excellent English, took over as president of the subsidiary in 1981 and was determined to make it a true multinational that blended Japanese technological know-how and American management expertise. But by trusting Americans, Yawata lost clout and credibility with the conservative NEC bureaucracy, and he was replaced in late 1984. Neubauer and the American executives whom Yawata had hired kept their titles and positions but lost their authority to Japan, says Robert C. Hinckley, the company's former general counsel. Eventually most of them quit. Yawata also left NEC and now heads the Japanese office of an American semiconductor start-up.

The rotation system not only indicates a lack of commitment to the local market but means that no one is responsible for the long-term success of the American subsidiary, says William L. Everitt, vice president of communications at Kyocera International, a Japanese semiconductor packager. For Japanese executives to have a vested interest in the success of the U.S. subsidiary, he says, "they must be prepared to bury their bones in America."

Also potentially divisive are the separate compensation, benefits and promotion systems for Japanese and American employees. Even in the rare cases when Japanese managers report to Americans, their salaries are fixed in Japan. Donald Moffet, who as president of Fujitsu Systems is one of very few Americans to hold the top post in a Japanese subsidiary, says that he does not determine the salaries or have the right to hire or fire the handful of Japanese nationals on his staff.

American managers caught up in the system pay a high price not only in career damage but in loss of pride and self-determination. The fallout is most evident in industries that are dominated by the Japanese, such as consumer electronics. Paul Michie spent 10 years at Panasonic, where he was a group vice president, and later went to Toshiba as an executive vice president. He says that American managers who invest their careers in the industry "have little choice but to keep their heads down. It's possible to be a strong manager within limits, but I wouldn't bet on your longevity. If they want to drive you into the ground, it doesn't matter if you are right or wrong. Ultimately, they own the sign over the door. And when you get bounced out of one of these companies, you have to place yourself back in with another."

The inequities in the Japanese system are most evident when business is bad. Only Americans are fired. From the Japanese point of view, this strategy makes

RATING THE JAPANESE EMPLOYERS

Some Japanese companies are trying to Americanize their U.S. subsidiaries—although overall, few American managers wield real power. Here's how 25 of the largest employers stack up:

COMPANY	EMPLOYEES TOTAL	AMERICAN	JAPANESE	CHAIRMAN/ PRESIDENT	YEAR BEGUN	TOTAL SALES (Millions)	COMMENTS
Matsushita Electric Corp. of America Secaucus, NJ	9,000	8,694	306	Akiya Imura	1959	$4,300	Moving back from American management to Japanese control. Umbrella for Panasonic, Technics and Quasar brands.
Fotomat Corp. St. Petersburg, FL	8,491	8,485	6	Minoru Yoshimura	1967	156	Owned by Konica Corporation since July 1986. Still run as an American company.
SONY Corp. of America New York, NY	7,000	6,800	200	Masaaki Morita	1960	2,700	One of the most Americanized Japanese subsidiaries, due to the influence of its cofounder Akio Morita. Has American president, Neil Vander Dussen.
Fujitsu America San Jose, CA	4,500	4,365	135	Masaka Ogi	1976	1,210	Has active program to Americanize and has promoted American executives and given them authority. An American sits on the board of directors.
California First Bank San Francisco, CA	3,900	3,845	55	Seishichi Itoh	1953	6,000[1]	Operated as an American bank; 77 percent owned by Bank of Tokyo. Three of the top eight executives are Americans.
Canon U.S.A. Lake Success, NY	3,477	3,150	327	Fujio Mitarai	1965	2,200	Highly autonomous. Parent depends on the subsidiary for a large percentage of its profits.
Sanwa Bank California Los Angeles, CA	3,300	3,265	35	Yukihiro Fujiwara	1972	5,315[1]	Operated as an American bank. Seven of the top 10 executives are American.
Toyota Motor Sales, U.S.A. Torrance, CA	3,300*	3,260	40	Yukiyasu Togo	1957	10,200†	American managers in key positions, but Japanese staff advisers exert determining influence on operations and culture.
NEC America Melville, NY	2,700	N/A	N/A	Tadashi Suzuki	1963	885	Traditional Japanese company run from Japan.
American Honda Motor Co. Gardena, CA	2,500*	N/A	N/A	Yoshihide Munekuni	1959	11,000†	Japanese management. Given considerable autonomy as sales arm for U.S. manufacturing subsidiary.
Toshiba America New York, NY	2,400	2,290	110	Nobuo Ishizaka	1965	1,500	Of nine top executives, only two senior vice presidents are American.
Konica Business Machines U.S.A.[2] Windsor, CT	2,311	2,303	8	Sho Kamiiisaka	1986	250	Acquired in 1986. Still run basically as a U.S. company. Five of the top seven executives are American.
Kyocera International San Diego, CA	2,300	2,210	90	Kazuo Inamori	1969	450	Has American president and top managers. Traditional Japanese culture blends with entrepreneurial philosophy of Inamori.
Ricoh Corp. West Caldwell, NJ	2,200	2,090	110	Keiji Endoh	1962	973	Five top executives are Japanese. Given considerable autonomy, due to strong U.S. manufacturing presence.
Nissan Motor Corp. in U.S.A. Carson, CA	2,000*	1,975	25	Kazuyoshi Hagiwara	1960	7,697	Import and sales arm. After departure of Marvin Runyon as president of Nissan Motor Manufacturing, both manufacturing and sales returned to tight control by Japanese parent.
Sharp Electronics Corp. Mahwah, NJ	2,000	1,880	120	Toshikazu Mitsuda	1962	1,800	Five of the six top executives are Japanese.
Murata Erie North America Smyrna, GA	1,843	1,820	23	Fred Chanoki	1981	184	Operated as an American company.
Alpha Therapeutic Corp. Los Angeles, CA	1,670	1,663	7	Hachino Ishigaki	1978	172	Acquired by Green Cross Corporation in 1978, which has kept American management.
Sumitomo Bank of California San Francisco, CA	1,650	1,600	50	Keizo Yoshida	1953	2,907[1]	Caters to Asian-American customers. About 60 percent of the employees are Asian or Asian-American.
Bridgestone (U.S.A.)[3] Nashville, TN	1,600	1,577	23	James P. McCann	1967	400	McCann, an American, appointed as president and board member in August. Unclear how Firestone, acquired in May, will be affected by Japanese ownership.
Hitachi America, Ltd. Tarrytown, NY	1,570	1,398	172	Tsuneo Tanaka	1959	1,400	Recently took steps to become more autonomous and promoted Americans to senior level. Tanaka says he wants to appoint an American president.
Japan Air Lines Co. New York, NY	1,411	N/A	N/A	Susumu Ozawa	1953	6,700	Management is mostly Japanese. American managers at the operations level.
Hattori Corp. of America New York, NY	1,268	1,258	10	Tsutomu Mitome	1970	650	Handles import and sales of Seiko watches and Epson printers. Robert Pliskin, an American, is president of the Seiko Time Corporation subsidiary.
Subaru of America[4] Cherry Hill, NJ	1,172	1,169	3	Harvey Lamm	1968	1,800	Import and sales subsidiary. American management has operating autonomy.
Mitsubishi Electric Sales America Cypress, CA	1,107	1,055	52	Tachi Kiuchi	1974	1,160	Traditional Japanese company.

[1] Total assets. [2] Formerly Royal Business Machines. [3] Does not include Firestone Tire & Rubber. [4] Public company, 49 percent owned by Fuji Heavy Industries.
*Does not include manufacturing employees. Toyota, 1,250; Honda, 6,000; Nissan, 3,100. †Estimate.

SEEKING REDRESS IN THE COURTS

Nobody knows how many American executives have lodged complaints against their Japanese employers for discrimination and unjust dismissal, because most disputes are settled privately and the executives involved are required to sign confidentiality agreements. A number of Japanese companies have paid hefty sums to settle such grievances, says George S.L. Dunlop, a partner in the California law firm of Dunlop & Haslam, who has brokered some six-figure settlements.

So far, though, American managers have had a tough time proving their cases in court. Roughly 20 lawsuits have been filed to date, and lawyers involved in such litigation report that they know of no executive who has won. It is very difficult for a manager to prove that he lost his job in favor of a Japanese, says Dunlop.

The odds against victory have not discouraged Edward Neubauer (see story) and Thomas McDannold from suing NEC Electronics, the California subsidiary of Japan's NEC Corporation. In nearly identical lawsuits filed in April 1987, Neubauer and McDannold charged that the company owed them compensation and benefits and that it had required them to break American laws.

Both men were high-level executives at NEC—Neubauer was senior vice president of sales and marketing, McDannold vice president of administration—and sat on the board of directors. According to their lawsuits, NEC Electronics had promised them authority in an autonomous, Americanized company and more lucrative compensation packages as an inducement to stay. Included in Neubauer's filing is a letter from Keiske Yawata, a former NEC Electronics president, agreeing to give Neubauer a base salary of $118,000, a 20 percent to 50 percent annual bonus, vesting in a supplemental executive retirement plan and a $200,000 interest-free loan.

Neubauer and McDannold charge that when they voiced concern about "unlawful" activities by NEC Electronics, they were stripped of authority and their compensation packages were withdrawn in an effort to force them out. They claim that they were asked to discriminate against American employees in favor of Japanese nationals; and that NEC Corporation, the parent company, set up a system of "transfer pricing" in order to return profits to Japan without paying U.S. taxes. The case was scheduled to be heard in federal court in late August. —L.N.

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sense; Americans are often paid more than their Japanese counterparts, and they are not integrated into the corporate parent. But it still creates resentment. "When people are laid off, Americans walk the street and the Japanese go home," says Michael K. Young, director of the Center for Japanese Legal Studies at Columbia Law School. "There is no sense of a shared spreading of the burden. There is a sense that we are not being treated fairly."

Take the experience of James A. Ristow, who was head of Toshiba's calculator division when the company decided to get out of the business in 1983. He was told to close down the division and fire 41 Americans, while Japanese employees were transferred to other company divisions. Ristow, a 14-year Toshiba veteran, was the last to be fired. "Americans feel that they are a vital part of the company," he says, "but when push comes to shove, they will not be figured into the equation."

Ristow sued Toshiba for $1.6 million, charging employment discrimination, but lost the case. He says that he was blackballed in the industry after filing suit and considers himself lucky to be working for C.B.M. America Company, a Japanese business-machines subsidiary.

What finally seals the barrier between American and Japanese managers is language. The most infuriating thing to many Americans is the constant side conversations that go on in Japanese, says Clifford Clarke, president of IRI International, a California consulting firm. The Japanese like it that way. One manager at a big Japanese bank says that he signed up for Japanese language lessons only to be told by a Japanese colleague that his efforts were not appreciated. And a Japanese-speaking American who worked for a Japanese financial firm says she was treated like a freak, "a talking dog."

Japanese companies' ineptitude in handling American executives is causing them serious headaches, which are bound to become more severe as they expand their presence in the United States. They are having trouble getting top-quality managers, despite paying higher salaries, and turnover in some industries, including electronics and financial services, is high. American executives rank Japanese banks behind first- and second-tier American banks and first-tier British and Swiss banks in status, according to Windle Priem, a managing director of the executive-search firm Korn/Ferry International. Japanese financial companies in New York, he says, pay up to 20 percent to 30 percent more than prestigious U.S. institutions for junior and middle managers.

Some Japanese companies complain privately that they are getting inferior managers. But ambitious Americans simply leave Japanese companies when their career paths are blocked, says Boston Consulting Group's Nomura, and those who remain are content not to "make waves." Recruiters also recognize that working for the Japanese would be a disaster for some of the best American executives. "I would not put a PepsiCo or a Citicorp guy in a Japanese company," says one. "They are hip shooters who are aggressive, outgoing, strong people."

To be sure, a handful of big Japanese companies have come a long way in Americanizing their U.S. subsidiaries, and progress is evident at a number of others (see table, page 51). But whether the Japanese can master the art of running multinational organizations remains to be seen. Some observers believe they can but that it will take time. "Autonomous local management will take maybe 10 to 20 years," says Richard Kraft, president of Matsushita Electronic Corporation of America. "The Japanese will do it, just as [the United States] did it in France and Argentina and as IBM is doing it today in Japan."

Nomura, for one, is more pessimistic. In his view, Japanese companies stand to lose market share in the United States as competition from other fast-developing Asian countries and U.S. companies intensifies. The key to their success is no longer sales and distribution but marketing, he says, and without local autonomy and expert American management, they are isolating themselves from the consumer. Ultimately, he believes, some of them will fail.

For Japan, such failure would be serious indeed. The United States has been a major source of profits for Japanese industry. And now that the strong yen has forced big auto and consumer-electronics companies to transfer manufacturing operations here, the American market is more crucial than ever to Japan's corporate health. At stake, of course, is the delicate economic and political interdependence of the United States and Japan. There are currently about 600 Japanese subsidiaries in this country, and hundreds more are expected to be set up, either from scratch or through acquisition, over the next five years or so. As the Japanese presence grows, American managers' antagonism toward their Japanese bosses can only fuel protectionist sentiments and jeopardize the U.S.-Japan partnership. ■

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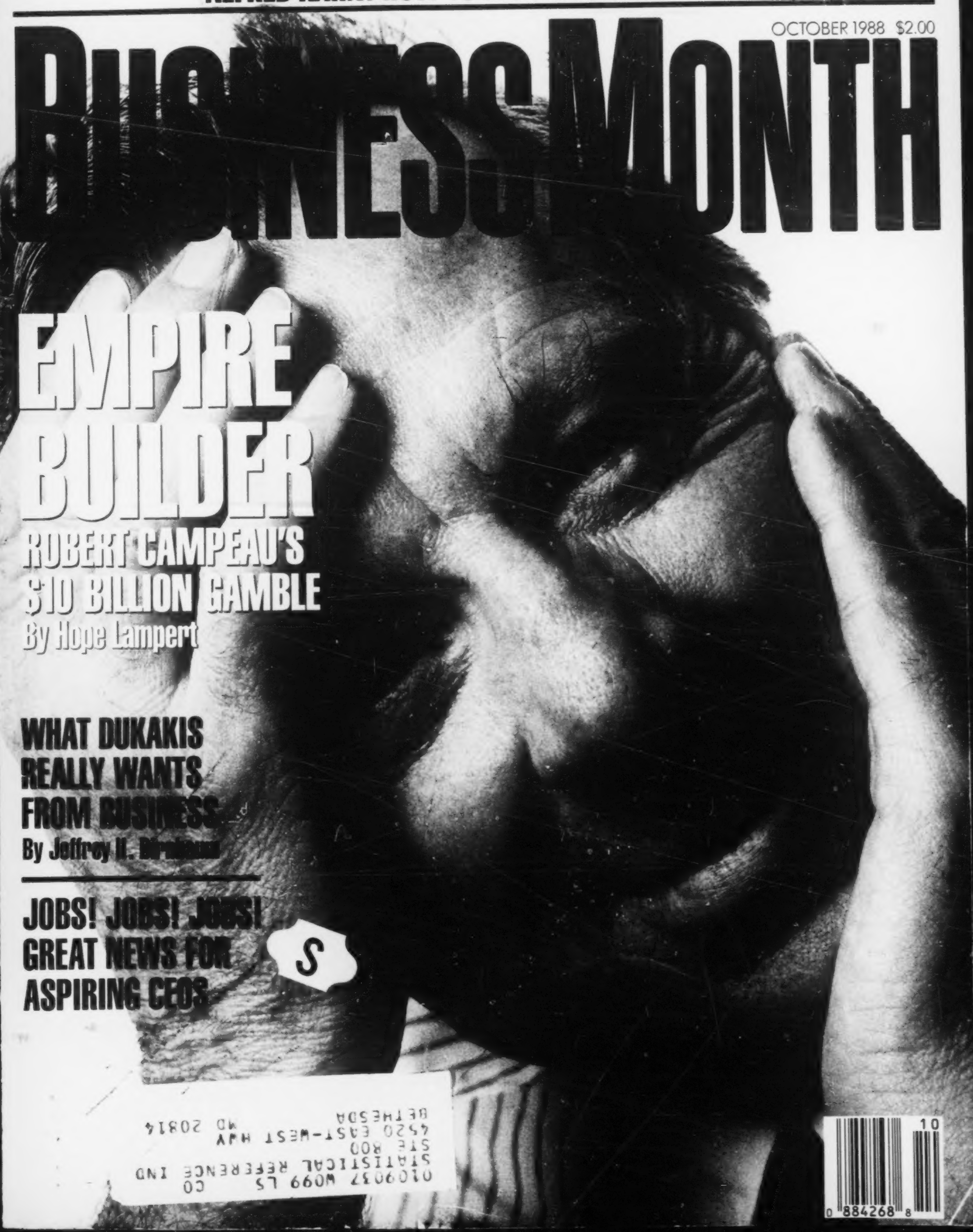

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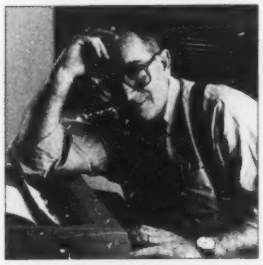
FROM THE EDITOR IN CHIEF



W. Edwards Deming is not a boy anymore, not at 87. The years press in closely as this most remarkable of the big-time management preachers offers the gospel to executives of our age. The curious thing is that Deming has been so willing to offer management advice for so long, and has not been listened to. Well, he has been listened to—but not, until very recently, in the United States. If more American industrialists had paid attention since, say, World War II, we coulda been a contender. As it happens, Japan has been the beneficiary of the Deming message since the late 1940s, and you know how well Japan is doing; it's been in all the papers. Deming is the creator of Japan Inc., positively revered by the management masses there, the man who . . . ah, but we go too far and give too much away. The very odd and somehow wonderful story of W. Edwards Deming, his techniques, his exile and his homecoming is told by Donald Katz. BUSINESS MONTH and its editors found the story irresistible, and painfully instructive.

Less painful but no less attractive is the annual job survey, a Special Report. What our experts, Steve Quickel and the redoubtable John Perham, have found is that there are plenty of places for executives at the highest levels of corporate life. CEOs are wanted. We also have a table showing nearly 1,000 jobs available today, with industry and salary. The salaries, wouldn't you know, range from a top of $900,000 to a low of $75,000. That is a very nice range by any measure. We have not listed the companies, because those things are secret; bedlam would follow if we told, or even if we revealed which of the jobs were supplied to us by which executive-recruiting firms. We have to leave something for executives to do: Go find the jobs.

Michael Dukakis is trying for one, as you know. It is at a level of responsibility and command almost beyond comprehension, although it pays only a fraction of what your average big-company CEO pulls down. Jeffrey Birnbaum is the author of the piece in question, a penetrating look at the new liberalism and the ideas that pop up from that creed, at Dukakis and the men and women who advise him on economic matters. The question of who becomes the 40th President of the United States may turn out to be of indelible importance to the conduct of corporate business in America.

Finally, but far from leastly, is the cover story. This is about Robert Campeau, the man whose name is certain to become a household word. He is the biggest retailer on the North American continent. (Trick construction: He is a French Canadian.) You go to a mall, chances are that Campeau owns it. What makes Campeau go? How do you develop a lust for shopping centers; is it a gland? All of this is explained in an unusual look at the cherubic owner of many of our stores. Hope Lampert is the author. She is a frequent contributor to the magazine; her most recent contribution was the April cover story on Texaco.

JOHN VAN DOORN

BUSINESS MONTH

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NORA FELLER

penditures to failing banks escalate dramatically—$1 billion in 1981, $3 billion in 1983 and $7 billion in 1984, the year Continental Illinois went bust—the $4 billion the agency shelled out to rescue this Texas bank was staggering. (As part of the rescue package, North Carolina National Bancshares took First RepublicBank over.)

But the part of the saga that caused Congressional critics to cast a jaundiced eye on how the FDIC has been running its bank rescue program was the original 1986 merger of RepublicBank Corporation and InterFirst Corporation that formed First RepublicBank. Why, they ask, did the FDIC let two ailing bank holding companies unite in the first place? "What did we hope to accomplish by taking two brain-dead institutions and putting them together?" asked Fernand J. St Germain, the Rhode Island Democrat who is chairman of the House Committee on Banking, Finance and Urban Affairs.

The expensive bailout also upped the ante on how much it will cost the FDIC to tie a tourniquet around Texas' hemorrhaging banking system. But William Seidman, chairman, recently warned that his organization isn't in as great a danger of going bankrupt as its sister, the Federal Savings and Loan Insurance Corporation, which has also been battered by Texas losses. It seems the much-ballyhooed "Southwest Plan," which is supposed to stabilize Texas thrifts by combining several troubled S&Ls into a single lending institution, has all the earmarks of the First RepublicBank debacle. "I see the danger of the FSLIC doing exactly what the FDIC has done by stitching together six or seven carcasses," says Representative Henry B. Gonzalez, a Democrat from San Antonio. "They are still dead. The parts are just bigger, and it stinks more."

—L.B.C.

Now, Training for Pre-Yuppies

FOR THOSE WHO REMEMBER the innocent pleasure of finding a Captain Marvel decoder ring inside a cereal box, it may be hard to imagine why Ralston Purina Company would use something so pedestrian as a plastic coupon that looks—and acts—like a credit card to entice children to eat its cereals. Especially since the company, as the fifth-ranked cereal maker, professes to have embarked on a drive to take a bite out of Kellogg, the grand high poobah of the breakfast table.

But the creative folks at Checkerboard Square in St. Louis are sure—based on data collected in focus groups—that today's kids like the idea of being able to select their own premiums and that carrying a plastic card around and feeling grown up will appeal to them. So since August, 9 million boxes of Honey Graham Chex, Cookie Crisp and The Real Ghostbusters cereals have included a plastic card (coincidentally done up in American Express green, although the company is careful to call the premiums "Super-Cash Cards" rather than credit cards) that can be swapped for any snack in the store selling for 40 cents. As the pièce de résistance, 10 boxes will contain gold cards worth $10,000 in cash each, a fact that could change the eating habits of more than a few adults.

—ROBERT LEVY

Dayton to London And In Between

IT IS, AS YOU MIGHT EXPECT, roughly 10 times as expensive to rent an office in chronically under-built London as it is in recently over-built Houston. According to the latest study by The Office Network, an international real-estate brokerage firm that polls market conditions twice a year in 47 major cities in North America and Western Europe, the United States continues to outpace the others significantly in the amount of un-rentable office space being built. For the first six months of this year, Western Europe's rate actually dropped by 1 percentage point to 2.5 percent, and Canada held steady at 9.3 percent. The United States' lowest entry was New York City, with 11.5 percent; the highest was Fort Lauderdale, Florida, where a developer-crushing 31.8 percent of the office space is going begging. The new titleholder barely edged out the former vacancy capitals of the country: Houston and Dallas, which tied for second place with rates of 31.2 percent each.

But the survey's authors point out that these standings are likely to change once all the buildings currently under construction come on the market. Washington, D.C., with more than 19 million square feet under construction, has more than any other city on The Office Network's list, while Houston is adding less than 100,000 square feet and Denver none. London is also engaged in a building boom that should ease that market's chronically tight conditions by mid-1989.

—L.B.C.

WHERE THE VACANCIES ARE...		...AND ARE NOT	
Fort Lauderdale, Florida	31.8%	Stuttgart, West Germany	1.1%
Dallas, Texas	31.2%	London, England	1.3%
Houston, Texas	31.2%	Munich, West Germany	1.4%
San Antonio, Texas	30.2%	Frankfurt, West Germany	1.8%
Denver, Colorado	28.3%	Copenhagen, Denmark	1.9%
Stamford, Connecticut	27.7%	Vienna, Austria	1.9%
Miami, Florida	26.5%	Hamburg, West Germany	3.2%
Fort Worth, Texas	26.5%	Dusseldorf, West Germany	3.8%
New Orleans, Louisiana	24.3%	Cologne, West Germany	4.7%
Princeton, New Jersey	23.7%	Toronto, Canada	8.1%

WHERE RENTS ARE LOW...		...AND HIGH	
Houston, Texas	$12.00	London, England	$116.42
Denver, Colorado	12.00	New York, New York	41.26
Dayton, Ohio	12.50	Toronto, Canada	36.28
San Antonio, Texas	14.00	Boston, Massachusetts	34.00
Memphis, Tennessee	14.50	Frankfurt, West Germany	31.99
Cologne, West Germany	15.38	Vienna, Austria	29.98
Fort Worth, Texas	15.50	Chicago, Illinois	29.81
Copenhagen, Denmark	15.53	Miami, Florida	29.00
New Orleans, Louisiana	16.50	Los Angeles, California	28.00
San Diego, California	16.80	Washington, D.C.	28.00

From the Fall/Winter 1988 International Office Market Report by The Office Network.

ANDREA BARUFFI

IN SEARCH OF SUPERMANAGERS

Although the crash left many middle managers jobless, our annual job survey shows that corporations are scrambling hard—and paying dearly—for top-tier talent.

BY STEPHEN W. QUICKEL

Big guns—chief operating officers with chief executive potential—are the most sought-after executives, according to BUSINESS MONTH's annual corporate job survey. While middle and upper-middle managers cut loose by takeovers, restructurings and Wall Street's post-crash cutbacks will have a rougher time than in past years, top jobs are out there and going begging.

Why the demand? There are a number of reasons. Companies such as Apollo Computer and Manufacturers Hanover Corporation are looking to fill the void left when succession plans went awry. Even giants such as Digital Equipment Corporation and Wells Fargo & Company need experienced top-management talent to fuel their growth. New foreign owners of American companies have begun installing their own management teams. Smaller companies and venture-capital start-ups, such as Mentor Graphics Corporation and ADC Telecommunications, are trying to lure top managers from bigger companies. Then there are dozens of companies that are simply taking advantage of an unexpectedly prosperous 1988 to stockpile management talent.

With all the action, compensation is soaring. The $6 million, three-year package Allegis Corporation (now UAL Corporation) offered Tiger International's Stephen M. Wolf in December 1987 is not unusual. The Pillsbury Company reportedly paid Philip L. Smith more than $1 million to replace John M. Stafford. And just a year ago, Apollo Computer paid $320,000 to recruit its former president and chief operating officer, Roland D. Pampel. In today's market, the company may have to up the ante by 30 percent to 50 percent in order to replace him.

Even at the subsidiary level, where chief operating officers are in particularly high demand, the money is breathtaking. One major health-care company, says Carl W. Menk, chairman of the New York executive-search firm of Canny, Bowen, will pay a $300,000 salary "plus a lot of other things" to a start-up boss for its new food-sweetener subsidiary.

The higher the risk, the better the money, but salary isn't everything. Hardest of all to fill are the top jobs at troubled companies. "Look at BankAmerica," says Max M. Ulrich, president of the Ward Howell International Group. "After Sam Armacost, they had to go back to Tom Clausen, the guy who got them into trouble in the first place." One long and difficult top-level search was finding a new president for the Conference Board, a nonprofit business-research firm. "Sure, it's loaded with prestige," says Ulrich. "But they want a water-walker who's willing to work for 200 bosses."

HELP WANTED

Only high-fliers need apply: When Manufacturers Hanover Corporation's president and CEO heir apparent, John R. Torrell III, resigned last March, the New York-based bank instituted a search "outside as well as inside" the company for a replacement. Six months later, the job is still open.

It's a tough order to fill, even though the bank is talking big money. Torrell's 1987 compensation was $598,800, but recruiters speculate that it will take $750,000 or more to replace him.

Chalk it up to the market: Executives at this level can afford to be choosy about the jobs they take on. The bank's domestic and third-world loans will be a mess to clean up. Then there is the chairman, John F. McGillicuddy, whose strong-willed personality was reportedly one of the reasons for Torrell's resignation. —S.W.Q.

Complicating matters is the fact that executive ambition burns differently in the '80s. Desire for "a piece of the action has prompted a lot of executives who got their experience at big companies to go to work at smaller companies," says Allan Stern, president of Haskell & Stern Associates in New York.

These days, being the boss at some huge, globe-spanning corporation isn't as much fun as it used to be—especially when the job calls for closing down plants and cutting the payroll. Since January 1987 Exxon's chairman, Lawrence G. Rawl, has had to fire more than 30,000 employees. "I've had jobs that were a helluva lot more fun than this one," he was quoted as saying.

While there is no lack of candidates hankering for CEO jobs, positions aren't being filled as fast as they once were. Searches that used to average three or four months now take five months to complete, and recruiters are startled by the number of six- and seven-figure jobs that are left unfilled for months because of "life-style considerations," such as a reluctance to tackle positions requiring 70-hour weeks and nonstop travel or a move to a less desirable locale. "There's a good market here," says Thomas M. Meade, senior partner in Los Angeles-based Kremple & Meade, "but the price of California real estate has proved to be a deterrent. The executive has to make up his mind whether or not he wants to buy a $750,000 house."

Most in need of top-level talent—general managers and marketing specialists—are the foreign companies that have been acquiring American concerns in recent years. And they're willing to pay for them: Some of the best salaries are at Japanese-owned firms.

In a kind of reverse play, American retailers are searching hard for apparel-manufacturing executives to manage their overseas operations, according to John Plummer, senior partner at Ward Howell International in New York City. R.H. Macy & Company, Federated/Allied, May Department Stores, The Gap and The Limited are all searching for this kind of talent, he says, and will pay as much as $200,000 a year to attract it. He adds that executive hiring is up in apparel retailing across the board, both by manufacturers whose sales have been spurred by import restrictions, and by a rash of apparel-store start-ups.

Other lively markets this year include the fast-food and automobile industries. There has also been a surge in recruiting by major hospitals and medical centers. And job openings and salaries are up at prep schools, colleges and museums.

The two big sore spots today are the job shrinkages from takeovers and the post-crash crunch on Wall Street. However, says Robert Staub of Staub, Warmbold & Associates in New York, "hiring is now back to normal in revenue-producing areas like mergers and acquisitions." Barry Nathanson, of Richards Consultants Limited, says that one client, which wants to become involved in mergers and acquisitions, will pay "two million, or whatever it takes," to land a top-drawer partner to build up its high-yield securities (junk-bond) operation.

But, on balance, the continuing surge of mergers and acquisitions is eliminating executive jobs. "Takeovers are still putting middle managers out of work," says O. William Battalia of New York's Battalia & Associates. "And many companies, when they do hire, are trying to double up on jobs—to get the employee-benefits man to take on compensation as well."

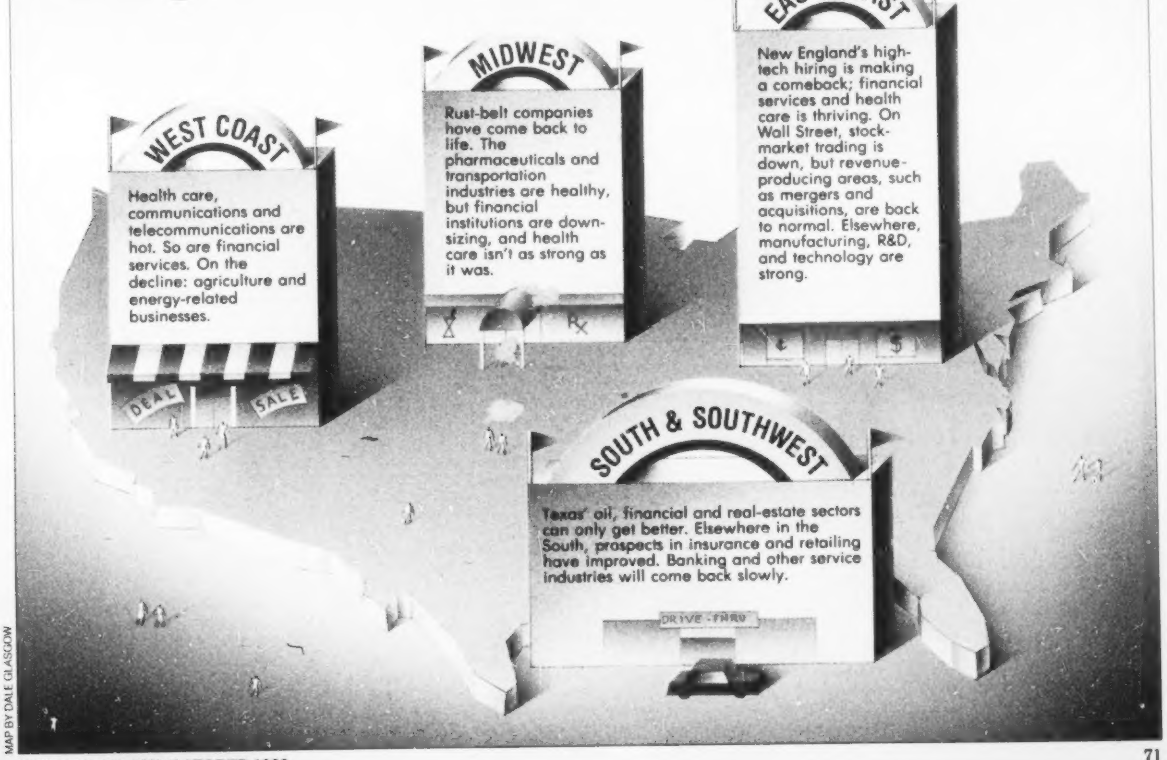
But, when one company buys another in order to move into a new market, "the acquirers usually throw out the top management and some of the middle managers," says Stephen Garrison, chairman of the board at Ward Howell. "Then they replace them and, over time, expand."

The market, however, remains volatile. Swinging up and down with business trends—or just ahead of them—it's a good economic indicator. Searches, says Charles W. Sweet of Chicago's A.T. Kearney, usually fall off six months before a recession hits. "And so far," he adds, "there's no falloff in sight." ■

WHERE THE JOBS ARE

Executive searches were up by more than 6 percent at midyear, reversing a downturn late in 1987, when companies believed a recession was imminent. But there are still some soft spots in the market.

Financial services, a mainstay for recruiters in recent years, were still down by 16 percent at midyear, according to the Association of Executive Search Consultants. But searches are up by 19 percent to 55 percent for marketing and headquarters-staff jobs, especially in the health-care, high-technology, service and heavy-industry areas. The real eye-catcher, though, is the 73 percent jump in top-level jobs paying $200,000 or more.



Health care, communications and telecommunications are hot. So are financial services. On the decline: agriculture and energy-related businesses.

Rust-belt companies have come back to life. The pharmaceuticals and transportation industries are healthy, but financial institutions are downsizing, and health care isn't as strong as it was.

New England's high-tech hiring is making a comeback; financial services and health care is thriving. On Wall Street, stock-market trading is down, but revenue-producing areas, such as mergers and acquisitions, are back to normal. Elsewhere, manufacturing, R&D, and technology are strong.

Texas' oil, financial and real-estate sectors can only get better. Elsewhere in the South, prospects in insurance and retailing have improved. Banking and other service industries will come back slowly.

MAP BY DALE GLASGOW

TOP JOBS '88

BUSINESS MONTH's annual survey of current openings

GENERAL MANAGEMENT

TITLE	DUTY	INDUSTRY	LOCATION	SALARY
President	——	Health care	East	$900,000
President	CEO	Distribution	Southwest	600,000
Executive VP	COO	Food services	Southeast	533,000
President	CEO	Paper	Southwest	500,000
Chairman	CEO	Savings & loan	Northeast	467,000
Executive VP	COO	Banking	East	450,000
Chairman	——	Leisure products	Northeast	400,000
President	COO	Retailing	Northwest	400,000
President	Division	Chemicals	Midwest	400,000
Group President	——	Publishing	East	400,000
Senior VP	——	Metals	East	400,000
Partner	——	Investment banking	West	400,000
Vice President	Group	Farm equipment	Midwest	400,000
President	——	Energy	Midwest	380,000
Executive VP	Division	Health care	East	350,000
President	COO	Retailing	East	333,000
President	COO	Investments	South	333,000
Group VP	Division	Computers	East	325,000
President	CEO	Insurance	East	300,000
President	CEO	Security equipment	Southeast	300,000
President	CEO	Investment banking	East	300,000
President	COO	Construction	East	300,000
President	Division	Insurance	East	300,000
Executive VP	——	Construction	West	300,000
Executive VP	——	Food service	South	293,000
President	CEO	Banking	East	267,000
President	COO	Broadcasting	West	267,000
President	——	Ophthalmic goods	East	267,000
Executive VP	——	Retailing	Midwest	267,000
Executive VP	——	Real estate	West	267,000
President	CEO	Engineering	West	264,000
VP-General Manager	——	Machinery	Southwest	263,000
Chairman	CEO	Machinery	Northeast	250,000
Group President	CEO	Medical equipment	West	250,000
President	——	Retailing	East	250,000
General Manager	Division	Automotive	West	250,000
President	CEO	Health care	West	240,000
President	CEO	Health care	Northeast	240,000
President	COO	Retailing, grocery	Northeast	240,000
President	COO	Retailing	Southeast	240,000
President	——	Textiles	West	240,000
President	——	Computers	Southeast	240,000
Senior VP	——	Real estate	Northeast	233,000
Executive VP	——	Real estate	West	233,000
VP-General Manager	——	Computers	West	233,000
President	CEO	Banking	South	228,000
President	——	Semiconductors	West	227,000
President	CEO	Computers	West	225,000
President	Division	Aerospace	West	225,000
President	Division	Metals	Midwest	225,000
President	COO	Electronics	Midwest	220,000
Partner	——	Venture capital	East	220,000
VP-General Manager	——	Switchgear	Midwest	212,000
Chairman	CEO	Apparel	Southeast	200,000
President	CEO	Medical equipment	West	200,000
President	CEO	R&D	Midwest	200,000
President	CEO	Health care	Midwest	200,000
President	CEO	Publishing	East	200,000
President	CEO	Insurance	Southeast	200,000
President	CEO	Mining	Southwest	200,000
President	CEO	Machinery	Midwest	200,000
President	CEO	Lighting fixtures	East	200,000
President	CEO	Computers	Southwest	200,000
President	CEO	Electronics	Northwest	200,000
President	COO	Trash hauling	West	200,000
President	COO	Meat packing	East	200,000
President	Regional	Publishing	East	200,000
President	Division	Testing equipment	East	200,000
President	Regional	Resorts	West	200,000
President	——	Insurance	East	200,000
Senior VP	Group	Electronics	Southwest	200,000
Executive VP	COO	Entertainment	East	200,000
Executive VP	COO	Commodities	West	200,000
Executive VP	——	Real estate	Midwest	200,000
Director	——	Health care	West	200,000
General Manager	——	Pharmaceuticals	East	200,000
Vice President	——	Polymers	East	200,000
Vice President	Division	High technology	Northeast	200,000
VP-General Manager	——	Textiles	East	200,000
Group VP	——	Paper	East	200,000
Vice President	Division	Software	West	200,000
President	Division	Rubber	East	193,000
President	Division	Rubber & plastics	East	189,000
President	CEO	Banking	East	187,000
Executive VP	——	Health care	West	187,000
Vice President	Division	Real estate	West	187,000
President	CEO	Publishing	Midwest	185,000
President	COO	Computers	East	180,000
President	COO	Health care	West	180,000
Executive VP	COO	Communications	Midwest	180,000
Executive VP	COO	Health care	West	180,000
Executive VP	COO	Health care	Midwest	180,000
General Manager	——	Electronics	Southeast	180,000
Vice President	Europe	Pharmaceuticals	East	180,000
President	CEO	Food	Midwest	175,000
President	CEO	Optics	East	175,000
President	CEO	Insurance	East	175,000
President	COO	Shipping	West	175,000
President	Subsidiary	Machinery	Northeast	175,000
President	Division	Communications	East	175,000
Executive VP	——	Food	South	175,000
Executive VP	——	Software	East	175,000
President	CEO	Health care	Midwest	173,000
President	CEO	Insurance	East	167,000
President	COO	Resorts	West	167,000
President	——	Real estate	West	167,000
General Manager	——	Beverages	Northeast	167,000
General Manager	——	Dental equipment	Midwest	167,000
Executive VP	——	Retailing	East	167,000
Vice President	——	Import/Export	East	167,000
Vice President	——	Real estate	East	167,000
Vice President	——	Real estate	West	167,000
President	CEO	Entertainment	West	160,000
President	CEO	Health care	Southeast	160,000
President	CEO	Medical equipment	West	160,000
President	CEO	Medical equipment	Midwest	160,000
President	COO	Retailing	East	160,000
President	COO	Banking	South	160,000
President	COO	Customs brokering	West	160,000
President	COO	Apparel	West	160,000
President	——	Software	Northeast	160,000
President	Division	Printing ink	Midwest	160,000
President	Division	Hotels	West	160,000
VP-General Manager	——	Apparel	East	160,000
President	Division	Pharmaceuticals	East	155,000
VP-General Manager	——	Beverages	West	153,000
President	CEO	Retailing	West	150,000
President	CEO	Entertainment	West	150,000
President	CEO	Heavy equipment	Midwest	150,000
President	CEO	Banking	Midwest	150,000
President	CEO	Health care	Midwest	150,000
Chmn/President	——	Entertainment	West	150,000
President	Subsidiary	Food	South	150,000
President	Subsidiary	Investment banking	Northeast	150,000
President	Division	Home repair	East	150,000
President	Division	Insurance	East	150,000

TITLE	DUTY	INDUSTRY	LOCATION	SALARY
Executive VP	Division	Chemicals	Midwest	150,000
Executive VP	——	Consumer services	Midwest	150,000
Executive VP	——	Retailing	Northeast	150,000
General Manager	COO	Electronics	Midwest	150,000
General Manager	Regional	Electronics	Midwest	150,000
Vice President	Group	Home furnishings	Midwest	150,000
Vice President	Group	Electronics	Northeast	150,000
Vice President	Group	Medical equipment	East	150,000
Vice President	Division	Food service	Southeast	150,000
Director	——	Printing	Southeast	140,000
Vice President	——	Insurance	East	140,000
Vice President	Division	Medical equipment	Midwest	140,000
Executive VP	Subsidiary	Instrumentation	Northeast	138,000
VP-General Manager	——	Food service	Southeast	138,000
President	CEO	Chemicals	Midwest	135,000
President	COO	Publishing	South	135,000
Vice President	Division	Chemicals	Northeast	135,000
President	COO	Coal mining	South	133,000
President	COO	Software	Southeast	133,000
President	——	Entertainment	West	133,000
President	——	Banking	South	133,000
President	——	Medical equipment	East	133,000
President	——	Computers	West	133,000
Executive VP	——	Real estate	South	133,000
Managing Director	COO	Entertainment	East	133,000
Vice President	Planning	Real estate	West	133,000
VP-General Manager	——	Aerospace	Northeast	132,000
President	CEO	Health care	Southwest	127,000
Executive VP	——	Engines & turbines	East	127,000
President	CEO	Health care	East	125,000
President	CEO	Manufacturing	Midwest	125,000
President	COO	Communications	Midwest	125,000
President	COO	Equipment leasing	Southeast	125,000
President	COO	Engineering	East	125,000
President	Division	Energy	Midwest	125,000
Managing Director	CEO	Data processing	East	125,000
General Manager	Regional	Electronics	East	125,000
President	CEO	Manufacturing	East	120,000
President	COO	Chemicals	Midwest	120,000
President	Division	Pharmaceuticals	Midwest	120,000
President	Distribution	Durable goods	West	120,000
President	——	Furniture	West	120,000
President	Division	Electronics	West	120,000
Group VP	Subsidiary	Medical equipment	East	120,000
General Manager	——	Machinery	West	120,000
Business Manager	——	Plumbing	West	120,000
Division Manager	——	Ceramics	West	120,000
Project Manager	Utilities	Construction	Northeast	120,000
Vice President	Division	Distribution	Southeast	120,000
VP-Managing Director	——	Banking	Midwest	120,000
General Manager	——	Communications	Northeast	117,000
President	——	Service	Northeast	110,000
VP-General Manager	——	Food	Midwest	110,000
General Manager	——	Plumbing	East	110,000
Vice President	Regional	Personal care	East	110,000
President	COO	Trucking	West	107,000
General Manager	——	Wholesaling	Midwest	105,000
Regional Manager	Division	Food service	West	103,000
President	CEO	Food & beverages	Southeast	100,000
President	CEO	Industrial	South	100,000
President	COO	Electronics	East	100,000
President	Division	Metal coating	Midwest	100,000
President	Division	Transportation	Midwest	100,000
President	Group	Medical equipment	Northeast	100,000
President	——	Machinery	East	100,000
Senior VP	——	Health care	Midwest	100,000
Executive VP	CEO	Health care	Southwest	100,000
Executive VP	COO	Engineering	Southwest	100,000
Executive VP	COO	Investments	Midwest	100,000
Executive VP	——	Insurance	South	100,000
General Manager	——	Machinery	Midwest	100,000
General Manager	Regional	Electronics	East	100,000
General Manager	——	Automotive parts	Midwest	100,000
General Manager	——	Transportation	East	100,000
Program Manager	——	Aerospace	Northeast	100,000
Publisher	——	Publishing	Northeast	100,000
Publisher	——	Publishing	East	100,000
VP-General Manager	——	Aerospace	West	100,000
Vice President	——	Hotels	Midwest	100,000
Vice President	Division	Medical equipment	Northeast	100,000
Vice President	Division	Metal equipment	South	100,000
President	Division	Metal forming	Southeast	90,000
Senior VP	COO	Electronics	West	90,000
Vice President	——	Health care	East	90,000
President	COO	Health care	West	80,000
President	——	Transportation	Midwest	80,000
General Manager	——	Beverages	East	80,000
VP-General Manager	——	Machinery	Northeast	80,000
General Manager	——	Agriculture	Northeast	78,000
Executive Director	Division	Health care	Midwest	75,000

FINANCE

TITLE	DUTY	INDUSTRY	LOCATION	SALARY
Managing Director	Swaps	Banking	Northeast	840,000
Executive VP	CFO	Financial services	East	600,000
Vice President	M&As	Investment banking	West	467,000
Partner	——	Investment banking	East	400,000
President	CEO	Insurance	Northeast	400,000
Vice President	Public finance	Banking	East	400,000
Vice President	——	Banking	East	400,000
Managing Director	——	Investment banking	East	350,000
Executive VP	CFO	Forest products	East	350,000
Vice President	Corporate finance	Investment banking	Northeast	350,000
Vice President	——	Venture capital	East	333,000
Controller	——	Financial services	East	325,000
Director	Research	Financial services	East	300,000
Planning Executive	Development	Conglomerate	Northeast	300,000
Vice President	CFO	Retailing, grocery	South	300,000
Vice President	CFO	Holding company	Northeast	300,000
Vice President	CFO	Health care	West	300,000
Vice President	CFO	Construction	Midwest	300,000
Analyst	Banking	Financial services	East	290,000
Vice President	CFO	Holding company	Northeast	267,000
Senior VP	Treasurer	Hotels	East	267,000
Senior VP	Credit	Banking	East	267,000
Senior VP	Fixed income	Insurance	West	267,000
Trader	——	Banking	East	267,000
Director	——	Retailing	East	250,000
Senior Manager	Portfolio	Investment banking	East	250,000
Vice President	Insurance	Investment banking	Northeast	250,000
Controller	——	Consumer products	Midwest	240,000
Vice President	Fixed income	Investment fund	West	240,000
Managing Director	Corporate finance	Brokerage	East	233,000
Executive VP	CFO	Savings & loan	Midwest	227,000
Senior VP	——	Automobile	West	225,000
Senior VP	CFO	Electronics	East	225,000
President	——	Banking	East	200,000
Executive VP	CFO	Retailing	Northwest	200,000
Vice President	CFO	Computers	West	200,000
Executive VP	——	Leisure products	East	200,000
Senior VP	Acquisitions	Savings & loan	West	200,000
Sr. Executive VP	CFO	Savings & loan	West	200,000
Senior VP	Multinationals	Banking	East	200,000
Managing Director	Energy	Brokerage	East	200,000
Tax Manager	——	Accounting	East	200,000
Manager	Development	Conglomerate	Northeast	200,000
Treasurer	M&As	Venture capital	East	200,000
Vice President	Controller	Retailing	Northeast	200,000
Vice President	——	Transportation	East	200,000
Vice President	——	Aerospace	Southeast	200,000
Vice President	Portfolio	Investment banking	East	200,000
Vice President	——	Retailing	Southeast	200,000
Vice President	Planning	Conglomerate	South	200,000
Vice President	CFO	Insurance	Southeast	192,000
Senior VP	Division	Banking	East	187,000
Senior VP	Custody	Banking	East	180,000
Senior VP	Assets	Insurance	Midwest	180,000
Executive VP	Banking	Banking	Southeast	180,000
Vice President	CFO	Financial services	East	180,000
Vice President	Investments	Insurance	Southeast	180,000
Vice President	Portfolio	Financial services	East	180,000
Controller	——	Insurance	East	175,000
Vice President	CFO	Food	West	173,000
Vice President	CFO	Mortgage banking	Midwest	173,000
Senior VP	Trust group	Banking	Southeast	173,000
Senior VP	——	Health care	Midwest	167,000
Senior VP	Auditing	Banking	East	167,000
Senior VP	Mortgages	Banking	East	167,000
Executive VP	Credit	Banking	South	167,000
Director	Taxes	Brokerage	East	167,000
Director	Taxes	Food	West	167,000
Manager	Regional	Savings & loan	South	167,000

TITLE	DUTY	INDUSTRY	LOCATION	SALARY
Manager	Regional	Banking	Northeast	167,000
Manager	Investments	Banking	Northeast	167,000
Trader	Eurocurrency	Banking	East	167,000
Vice President	Development	Equipment rental	Northeast	167,000
Vice President	CFO	Entertainment	West	167,000
Vice President	Real estate	Banking	East	167,000
Vice President	CFO	Health care	West	160,000
Vice President	CFO	Retailing	Southeast	160,000
Vice President	CFO	Real estate	West	160,000
Executive VP	CFO	Savings & loan	South	160,000
Senior VP	——	Health care	Midwest	160,000
Senior VP	Direct lending	Holding company	Southeast	160,000
Chief Economist	——	Investments	East	160,000
Investment Manager	——	Financial services	West	160,000
Director	Taxes	Paper	West	160,000
Director	Taxes	Electronics	Midwest	160,000
Controller	——	Automotive parts	Midwest	160,000
Manager	Financial planning	Holding company	East	160,000
Vice President	Merchant banking	Investment banking	South	160,000
Vice President	Swaps	Banking	East	160,000
Vice President	——	Health clubs	South	160,000
Vice President	Development	Energy	Midwest	160,000
Vice President	Auditing	Health care	East	160,000
Vice President	——	Contact lenses	West	160,000
Vice President	——	Investments	Northeast	160,000
Vice President	CFO	Leisure products	Midwest	153,000
Director	Planning	Conglomerate	West	153,000
Director	Financial analysis	Food	West	152,000
Senior VP	Risk management	Insurance	East	150,000
Senior VP	——	Insurance	East	150,000
Senior VP	——	Health care	East	150,000
Managing Director	Financial futures	Investment banking	Northeast	150,000
Managing Director	M&As	Banking	East	150,000
Treasurer	——	Metal products	Midwest	150,000
Team Leader	Division	Banking	Southeast	150,000
Vice President	CFO	Conglomerate	East	150,000
Vice President	Controller	Hardware	Midwest	150,000
Director	——	Utility	Northeast	147,000
Vice President	Money markets	Banking	East	147,000
Vice President	Foreign exchange	Banking	East	147,000
Specialist	Asset swaps	Investment banking	East	147,000
Vice President	Mortgage finance	Investment banking	Northeast	144,000
Vice President	Assets	Holding company	South	144,000
Senior VP	Development	Financial services	East	140,000
Director	Planning	Printing	West	140,000
Director	——	Insurance	Northeast	140,000
Vice President	CFO	Food	West	140,000
Vice President	Regional	Banking	East	140,000
Senior VP	Loans	Holding company	Midwest	133,000
Executive VP	Controller	Holding company	Southeast	133,000
Treasurer	——	Business credit	Northeast	133,000
Director	Taxes	Homebuilding	East	133,000
Trader	Foreign exchange	Banking	East	133,000
Associate	——	Investments	East	133,000
Vice President	Pensions	Banking	East	133,000
Vice President	Internal auditing	Banking	East	133,000
Vice President	——	Video publishing	West	133,000
Vice President	Commodities	Banking	East	133,000
Vice President	——	Banking	East	133,000
Vice President	Corporate banking	Banking	East	133,000
Vice President	Real estate	Savings & loan	East	133,000
Vice President	Assets	Real estate	West	133,000
Associate VP	Assets	Insurance	West	133,000
Senior Analyst	Securities	Investments	Northeast	133,000
Senior Analyst	Media department	Banking	East	133,000
Portfolio Manager	——	Banking	East	132,000
Manager	Commercial	Banking	Southeast	130,000
Manager	Division	Banking	Southeast	130,000
Vice President	Accounting	Distribution	Southwest	130,000
Senior VP	CFO	Banking	Midwest	125,000
Vice President	CFO	Chemicals	East	125,000
Vice President	CFO	Energy	Midwest	125,000
Vice President	M&As	Conglomerate	East	125,000
Vice President	Taxes	Financial services	East	125,000
Director	Budgeting	Food	Southeast	123,000
Senior VP	——	Pharmaceuticals	Midwest	120,000
Senior VP	Corporate banking	Banking	Midwest	120,000
Senior VP	COO	Electronics	West	120,000
Vice President	CFO	Fabricated metal	West	120,000
Vice President	CFO	Brewery	East	120,000
Director	Development	Real estate	South	120,000
Director	Budget analysis	Food	West	120,000
Director	Auditing	Brokerage	Northeast	120,000
Manager	Commercial banking	Banking	Southeast	120,000
Manager	Real estate	Energy	Midwest	120,000
Asst. Treasurer	——	Food	East	120,000
Vice President	Lending officer	Banking	East	120,000
Vice President	——	Machinery	Northwest	120,000
Vice President	CFO	Sporting goods	West	118,000
Senior VP	——	Insurance	East	115,000
Director	Taxes	Cement	Southwest	113,000
Vice President	Property unit	Insurance	Northeast	113,000
Vice President	Team leader	Banking	East	113,000
Manager	Real estate	Banking	Southeast	112,000
Vice President	——	Pharmaceuticals	Northeast	108,000
Vice President	——	Banking	East	108,000
Vice President	CFO	Health care	West	107,000
Treasurer	——	Durable goods	Midwest	107,000
Director	Development	Security equipment	Southeast	107,000
Manager	Planning	Conglomerate	West	107,000
Vice President	Loans	Banking	East	107,000
Vice President	Assets	Brokerage	West	107,000
Director	Taxes	Machinery	Midwest	105,000
Senior VP	Consumer banking	Banking	East	100,000
Assoc. Secretary	——	Service	Midwest	100,000
Director	Commodities	Banking	East	100,000
Director	Taxes	Machinery	Northeast	100,000
Controller	——	Aircraft repair	East	100,000
Controller	——	Computers	Northeast	100,000
Controller	——	Holding companies	Midwest	100,000
Controller	Division	Cutlery	East	100,000
Senior Manager	Utilities	Accounting	Southeast	100,000
Project Manager	Financial services	Publishing	East	100,000
Vice President	CFO	Broadcasting, cable	West	100,000
Vice President	——	Medical equipment	Northeast	100,000
Vice President	Real estate	Savings & loan	East	100,000
Vice President	Real estate	Banking	Southeast	95,000
Director	Fiscal services	Health care	West	95,000
Director	Accounts receivable	Publishing	East	93,000
Controller	——	Leisure products	West	93,000
Vice President	Commercial	Banking	Northeast	93,000
Vice President	——	Banking	East	93,000
Vice President	CFO	Health care	South	90,000
Director	Treasurer	Engineering	East	90,000
Trader	——	Investment banking	Northeast	90,000
Manager	Internal auditing	Food	Southeast	90,000
Chief Comptroller	——	Banking	Southeast	90,000
City Executive	Division	Banking	Southeast	88,000
Vice President	Planning	Banking	Midwest	88,000
Controller	——	Machinery	West	87,000
Controller	——	Computers	Southwest	85,000
Director	Accounting	Insurance	East	84,000

> *"MOST BIG COMPANIES HAVE LONG SINCE ADOPTED A BARE-BONES MENTALITY AND ARE FINDING THAT THEY HAVE RETRENCHED TOO FAR. NOW THEY MUST DO SOME REHIRING."*
>
> *—John Mirtz, Byrnes Martin Mirtz Morice, Stamford*

TITLE	DUTY	INDUSTRY	LOCATION	SALARY
Controller	——	Chemicals	East	81,000
Executive VP	——	Insurance	East	80,000
Director	——	Beverages	East	80,000
Treasurer	——	Communications	Southeast	80,000
Treasurer	——	Medical research	East	80,000
Controller	——	Communications	Southeast	80,000
Controller	——	Real estate	Southeast	80,000
Senior Manager	——	Banking	Northeast	80,000
Manager	Foreign exchange	Pharmaceuticals	East	80,000
Manager	Taxes	Accounting	Midwest	80,000
Tax Manager	——	Advertising	East	80,000
Underwriter	Real estate	Savings & loan	Midwest	80,000
Asst. Treasurer	——	Resorts	West	80,000
Audit Manager	——	Beverages	East	80,000
Associate	——	Banking	West	80,000
Vice President	Corporate trusts	Banking	East	80,000
Vice President	CFO	Paper	Northeast	80,000
Vice President	——	Health care	West	80,000
Vice President	Trusts	Banking	East	80,000
Executive VP	Lending	Banking	Midwest	75,000
Controller	——	Food	Midwest	75,000
Director	Financial control	Manufacturing	Midwest	75,000
Director	Auditing	Machinery	Northeast	75,000
Director	Budgeting	Insurance	East	75,000
Manager	Auditing	Brokerage	Northeast	75,000
Vice President	Controller	Insurance	East	75,000

OPERATIONS

TITLE	DUTY	INDUSTRY	LOCATION	SALARY
Vice President	Space missions	Aerospace	South	360,000
Vice President	Aeronautics	Aerospace	South	311,000
Vice President	Strategic planning	Tobacco	Northeast	300,000
Senior VP	Underwriting	Insurance	East	300,000
Senior VP	——	Holding company	West	300,000
Vice President	——	Tobacco	Northeast	267,000
Senior VP	Construction	Engineering	Midwest	247,000
Vice President	Store operations	Apparel	Northeast	240,000
Executive VP	Manufacturing	Security equipment	East	200,000
Vice President	Strategic planning	Electronics	East	200,000
Vice President	Administration	Oil-field equipment	South	200,000
Manager	Regional	Insurance	Southeast	200,000
Vice President	Production	Building supplies	Southwest	200,000
Vice President	——	Electronics	West	200,000
Vice President	——	Printing	West	180,000
Vice President	——	Food	Southeast	179,000
Senior VP	Distribution	Food	Southeast	173,000
Vice President	Administration	Venture capital	East	167,000
Director	Management	Real estate	Northwest	167,000
Vice President	Construction	Real estate	West	167,000
Executive VP	——	Communications	East	160,000
Senior VP	——	Retailing	Southeast	150,000
Vice President	Strategic planning	Financial services	East	150,000
Executive VP	——	Automotive	Midwest	150,000
Director	Planning	Personal care	East	150,000
Vice President	——	Automotive parts	Midwest	150,000
Vice President	Manufacturing	Dairy products	Midwest	147,000
Vice President	——	Chemicals	Midwest	144,000
Director	Supply	Industrial gases	South	133,333
Vice President	Transportation	Trading company	East	133,000
Vice President	——	Ophthalmic goods	Midwest	133,000
Vice President	——	Transportation	West	133,000
Associate VP	Strategic planning	Railroads	Southwest	126,000
Vice President	Manufacturing	Electronics	West	125,000
Vice President	Pricing actuary	Insurance	East	125,000
Vice President	——	Metal products	Midwest	122,000
Executive VP	Manufacturing	Apparel	East	120,000
Vice President	Strategic planning	Financial services	East	120,000
Vice President	Military projects	Electronics	West	120,000
Director	Manufacturing	Lighting	East	120,000
Director	Defense products	Tank parts	East	120,000
General Manager	——	Medical equipment	West	120,000
General Manager	——	Apparel	East	120,000
Plant Manager	——	Gears	East	120,000
Asst. Manager	Plant	Automotive	Midwest	120,000
Vice President	——	Tools	Southeast	119,000
Director	——	Real estate	Southeast	116,000
Vice President	Manufacturing	Publishing	Midwest	110,000
Vice President	——	Pharmaceuticals	East	110,000
Director	Manufacturing	Communications	Southeast	108,000
Vice President	Claims	Insurance	Midwest	108,000
Director	Claims	Insurance	Midwest	107,000
Director	Engineering	Ceramics	West	107,000
Regional Director	Eastern stores	Apparel	Northeast	107,000
Director	Purchasing	Machinery	Southeast	105,000
Senior VP	——	Furniture	West	100,000
Associate VP	Administrations	Health care	West	100,000
Associate VP	Treaties	Insurance	East	100,000
Vice President	Product support	Engines & turbines	East	100,000
Director	Material planning	Pharmaceuticals	Southeast	100,000
Director	Logistics	Computers	West	100,000
Director	Quality control	Steel	Southwest	100,000
Manager	Instrumentation	Engineering	West	100,000
Vice President	Maintenance	Transportation	Midwest	100,000
Vice President	——	Automotive	Midwest	100,000
Vice President	Reserving actuary	Insurance	East	100,000
Vice President	——	Tools	Midwest	100,000
Vice President	——	Computers	East	100,000
Vice President	Construction	Real estate	East	100,000
Vice President	Management	Real estate	Southeast	100,000
Senior VP	Services	Savings & loan	Midwest	93,000
Director	Materials	Pharmaceuticals	East	92,000
Manager	Quality assurance	Electronics	East	90,000
Manager	——	Shipping	East	90,000
Consultant	Manufacturing	Paper	West	88,000
Vice President	Production	Furniture	South	88,000
Director	Automation	Aircraft parts	Northwest	87,000
Director	Manufacturing	Fasteners	East	85,000
Vice President	Manufacturing	Jewelry	East	85,000
Senior VP	——	Metal products	Midwest	84,000
Director	Manufacturing	Cutlery	East	80,000
Director	Management	Real estate	West	80,000
Manager	Purchasing	Paper	East	80,000
Manager	Purchasing	Automotive	Midwest	80,000
Manager	Distribution	Retailing	West	80,000
Manager	Merchandising	Retailing	Midwest	80,000
Manager	Production	Office supplies	West	80,000
Manager	——	Machinery	West	80,000
Manager	Claims services	Insurance	Midwest	80,000
Manager	Cold type	Printing	Southeast	80,000
Manager	Production control	Cutlery	East	80,000
Manager	Production	Machinery	South	80,000
Manager	Factory	Glass products	West	80,000
Manager	Quality control	Transportation	Northeast	80,000
Plant Manager	——	Power generators	Midwest	80,000
Vice President	——	Medical equipment	Northeast	80,000
Vice President	Materials	Pharmaceuticals	Midwest	80,000
Vice President	——	Rubber & plastics	Midwest	80,000
Vice President	——	Real estate	Southeast	80,000
Vice President	Mailing services	Publishing	East	80,000
Vice President	Administration	Education	Midwest	75,000
Director	Distribution	Food	East	75,000
Director	Logistics	Food	East	75,000
Executive VP	——	Computer	South	75,000
Manager	Procurement	Automotive	East	75,000
Manager	Distribution	Beverages	East	75,000
Buyer	Purchasing	Retailing	Midwest	75,000
Safety Manager	——	Utility	Southeast	75,000
Plant Manager	——	Minerals	Southwest	75,000
Vice President	Manufacturing	Tools	Midwest	75,000

MARKETING

TITLE	DUTY	INDUSTRY	LOCATION	SALARY
Managing Director	——	Real estate	West	500,000
Executive VP	——	Communications	South	353,000
Vice President	——	Food	Midwest	300,000
Director	Corporate	Brokerage	East	267,000
Executive VP	——	Communications	Northeast	250,000
Executive VP	——	Entertainment	West	233,000
Vice President	Strategic	Transportation	West	233,000
Group VP	Commercial	Electronics	Midwest	233,000
Senior VP	Institutional	Investment banking	East	225,000
Executive VP	——	Financial services	Northeast	210,000
Senior VP	——	Insurance	West	200,000
Director	Market planning	Banking	East	200,000
Vice President	——	Health care	East	200,000
Vice President	Development	Information service	East	200,000
Vice President	Development	Food	East	200,000
Vice President	——	Medical equipment	East	200,000
Manager	Product	Software	East	195,000
Director	Brand identity	Advertising	West	187,000
Senior VP	Merchandising	Retailing	West	183,000

TITLE	DUTY	INDUSTRY	LOCATION	SALARY
Senior VP	——	Leisure products	East	175,000
Manager	Merchandising	Retailing	Midwest	175,000
Senior VP	Division	Chemicals	East	175,000
Senior VP	Merchandising	Retailing	Southeast	175,000
Senior VP	Development	Insurance	Midwest	175,000
Vice President	——	Food service	West	173,000
Vice President	——	Food	Midwest	173,000
Director	——	Aerospace	West	170,000
Director	——	Brokerage	Midwest	167,000
Marketing Exec.	——	Banking	East	167,000
First VP	Direct response	Brokerage	East	160,000
First VP	Strategic	Brokerage	East	160,000
Director	——	Food	West	160,000
Vice President	——	Engines & turbines	East	160,000
Vice President	——	Broadcasting	East	160,000
Senior VP	——	Plastics	South	150,000
Vice President	National account	Communications	East	150,000
Vice President	——	Photographic	Midwest	150,000
Vice President	——	Food	Midwest	150,000
Vice President	Direct marketing	Apparel	Northeast	147,000
Exec. Director	——	Pharmaceuticals	East	144,000
Director	Development	Automotive	Midwest	140,000
Director	Direct response	Chemicals	East	140,000
Director	——	Pharmaceuticals	East	140,000
Vice President	——	Business services	East	140,000
Vice President	Organization	Banking	East	140,000
Vice President	——	Food	West	135,000
Senior VP	——	Apparel	Midwest	133,000
Senior VP	——	Banking	Southeast	133,000
Vice President	——	Semiconductors	Southwest	133,000
Vice President	——	Machinery	West	133,000
Vice President	——	Food	East	133,000
Vice President	——	CAD/CAM	Northeast	133,000
Vice President	——	Computers	Northeast	133,000
Vice President	——	Electronics	West	133,000
Manager	——	Financial services	East	130,000
Vice President	——	Aerospace	West	130,000
Senior VP	Development	Banking	East	125,000
Creative Dir.	——	Advertising	Southwest	125,000
Vice President	——	Pharmaceuticals	East	125,000
Vice President	——	Retailing	Southwest	125,000
Senior VP	——	Banking	East	120,000
Vice President	Advertising	Retailing	East	120,000
Vice President	——	CAD/CAM	West	120,000
Vice President	——	Information service	East	120,000
Senior VP	Development	Publishing	East	120,000
Vice President	——	Tools	Southeast	119,000
Vice President	——	Distribution	Southwest	117,000
Vice President	——	Ceramics	West	115,000
Director	——	Communications	West	113,000
Manager	Pricing	Publishing	East	110,000
Manager	——	Chemicals	Midwest	110,000
Senior VP	Individual	Insurance	Midwest	108,000
Director	Development	Health care	West	107,000
Director	——	Health care	East	107,000
Director	——	Medical equipment	Midwest	107,000
Vice President	——	Health care	South	107,000
Director	——	Ophthalmic goods	East	105,000
Manager	——	Computers	Midwest	105,000
Vice President	——	Toys	Midwest	105,000
Vice President	——	Insurance	Midwest	104,000
Executive VP	——	Glass products	West	100,000
Director	——	Plastics	Southeast	100,000
Director	Promotions	Pharmaceuticals	East	100,000
Director	Development	Insurance	East	100,000
Director	——	Medical equipment	Midwest	100,000
Director	Distributor	Electronics	Midwest	100,000
Director	Training	Computers	Northeast	100,000
Manager	Promotion	Supermarkets	West	100,000
Manager	Merchandising	Holding company	Northwest	100,000
Manager	Merchandising	Retailing	Midwest	100,000
Product Manager	——	Insurance	Midwest	100,000
Program Manager	——	Environmental engineering	West	100,000
Bus. Devel. Officer	——	Banking	South	100,000
Bus. Devel. Officer	——	Banking	South	100,000
Vice President	——	Import/Export	Northeast	100,000
Vice President	——	Food	East	100,000
Vice President	——	Pollution services	West	100,000
Vice President	Development	Software	East	100,000
Vice President	——	Banking	East	100,000
Vice President	Advertising	Computers	East	100,000
Vice President	——	Insurance	Northeast	100,000
Vice President	——	Office products	Midwest	100,000
Vice President	——	Resins	East	100,000
Vice President	——	Engines & turbines	Southeast	100,000
Director	Development	Cosmetics	West	95,000
Director	——	Machinery	Southeast	93,000
Senior Manager	Product line	Chemicals	Midwest	93,000
Manager	——	Paper	West	93,000
Vice President	——	Entertainment	South	93,000
Manager	——	Communications	East	92,000
Exec. Director	——	Communications	South	90,000
Director	——	Computers	East	90,000
Director	——	Textiles	South	90,000
Director	——	Publishing	East	90,000
General Manager	Division	Chemicals	East	90,000
Vice President	Product	Banking	East	90,000
Vice President	——	Construction	Northeast	90,000
Director	Educational	Publishing	East	85,000
Director	——	Personal care	East	85,000
Vice President	——	Electrical	Midwest	85,000
Director	Development	Electronics	Southwest	84,000
Manager	——	Insurance	West	84,000
Vice President	Advertising	Farm equipment	Midwest	80,000
Manager	Advertising	Retailing	South	80,000
Manager	Promotion	Aerospace	West	80,000
Manager	Development	Cement	Southwest	80,000
Assoc. Manager	Market research	Retailing	South	80,000
Asst. Sales Mgr.	——	Furnaces	South	80,000
Vice President	Client services	Insurance	Southeast	80,000
Vice President	Development	Health care	West	80,000
Director	Regional sales	Wire & cable	East	75,000
Director	——	Food	South	75,000
Director	New business	Consumer products	Midwest	75,000
Director	——	Automotive parts	Midwest	75,000
Director	Development	Personal care	East	75,000
Director	——	Health care	East	75,000
Manager	——	Pharmaceuticals	East	75,000
Manager	——	Biotechnology	West	75,000
Manager	——	Wire and cable	Midwest	75,000
Product Manager	——	Cosmetics	East	75,000
Product Manager	——	Computers	East	75,000
Affil. Manager	——	Computers	Southeast	75,000
Vice President	——	Transportation	Midwest	75,000

SALES

TITLE	DUTY	INDUSTRY	LOCATION	SALARY
Managing Dir.	Financial sales	Investment banking	Northeast	500,000
Executive VP	——	Communications	East	333,000
Manager	National sales	Software	East	275,000
Vice President	——	Software	West	200,000
Senior VP	Institutional	Investment banking	Northeast	180,000
Vice President	——	Textiles	East	175,000
Vice President	National sales	Banking	East	175,000
Vice President	——	Paper	East	160,000
Senior VP	——	Financial services	West	150,000
Director	Product	Computers	West	150,000
General Manager	——	Broadcasting	Northeast	147,000
Manager	Regional sales	Communications	Southeast	140,000
Vice President	——	Computers	West	140,000
Vice President	——	Food	Midwest	140,000
Vice President	——	Printing	Southeast	135,000
Senior VP	Research	Market research	Northeast	133,000
Director	National sales	Bakery	Midwest	127,000
Product Manager	Graphics products	Software	West	127,000
Director	Client services	Advertising	Southwest	125,000
Senior VP	——	Mortgage banking	Midwest	120,000
Director	National sales	Lumber	West	120,000
Director	Product	Automotive	West	120,000
Vice President	——	Waste disposal	East	120,000
Vice President	——	Office supplies	Midwest	120,000
Vice President	——	Apparel	South	120,000
Vice President	——	Automotive	Midwest	120,000
Manager	——	Containers	Midwest	113,000
Exec. Acct. Mgr.	——	Communications	Southeast	112,000
Vice President	——	Insurance	Midwest	109,000
Director	——	Software	West	107,000
Director	Research control	Pharmaceuticals	Northeast	107,000
Vice President	——	Computers	West	107,000
Vice President	National accounts	Electronics	East	107,000
Manager	——	Transportation	West	100,000
Manager	——	Insurance	South	100,000

TITLE	DUTY	INDUSTRY	LOCATION	SALARY
Manager	Production	Insurance	Midwest	100,000
Manager	National sales	Instruments	Northeast	100,000
Manager	District sales	Machinery	Northeast	100,000
Sales Rep.	Residential	Banking	South	100,000
Sales Rep.	——	Software	East	100,000
Vice President	Merchandising	Retailing	West	100,000
Vice President	——	Industrial gases	East	100,000
Vice President	——	Food	Midwest	96,000
Director	Field service	Waste disposal	East	93,000
Vice President	——	Beverages	East	93,000
Sr. Account Mgr.	——	Communications	East	92,000
Director	Accounts	Communications	Midwest	90,000
Systems Exec.	——	Communications	Midwest	90,000
Manager	——	Pumps	Midwest	90,000
Vice President	——	Transportation	Midwest	90,000
Vice President	——	Personal appliances	East	90,000
Vice President	——	Financial services	Southwest	90,000
Manager	——	Capacitors	West	87,000
Manager	National sales	Dental equipment	East	87,000
Manager	National sales	Garden equipment	West	87,000
Manager	——	Computers	West	87,000
Manager	Production	Insurance	Midwest	85,000
Vice President	——	Food	East	85,000
Manager	National accounts	Automotive	Midwest	84,000
Senior VP	Marine insurance	Insurance	Northwest	80,000
Director	——	Supermarkets	East	80,000
Director	Franchise sales	Household products	South	80,000
Manager	Accounts	Retailing	Midwest	80,000
Manager	Mid-Atlantic	Broadcasting	West	80,000
Manager	——	Paper	Southwest	80,000
Manager	National	Paper	East	80,000
Manager	New-car sales	Automotive	Southwest	80,000
Manager	——	Instruments	Northeast	80,000
Product Manager	——	Computers	South	80,000
Product Manager	Commercial	Security equipment	Southeast	80,000
Vice President	——	Electronics	East	80,000
Director	——	Consumer products	Midwest	77,000
Managing Director	——	Automotive	Midwest	75,000
Vice President	——	Electronics	Midwest	75,000

HUMAN RESOURCES

TITLE	DUTY	INDUSTRY	LOCATION	SALARY
Vice President	Development	Printing	East	333,000
Managing Director	——	Financial services	East	300,000
Vice President	——	Tobacco	Northeast	240,000
Vice President	——	Brokerage	Northeast	233,000
Senior VP	——	Transportation	East	220,000
Senior VP	——	Banking	East	200,000
Vice President	——	Electronics	West	200,000
Manager	Development	Energy	Midwest	170,000
Director	——	Apparel	Northwest	160,000
Director	Development	Food	East	153,000
Director	Benefits	Food	East	153,000
Senior VP	Personnel	Insurance	East	150,000
Senior VP	Administration	Financial services	West	150,000
Vice President	——	Computers	East	150,000
Senior VP	——	Health care	Midwest	133,000
Director	——	Electronics	Midwest	133,000
Presonnel Director	——	Trading company	East	133,000
Personnel Director	——	Pet food	West	133,000
Vice President	Comp. & benefits	Insurance	Northeast	133,000
Vice President	——	Hotels	West	133,000
Vice President	Personnel	Insurance	Northeast	133,000
Senior VP	——	Communications	East	125,000
Director	Comp. & benefits	Health care	West	120,000
Director	——	Savings & loan	West	120,000
Director	——	Trading company	East	120,000
Vice President	——	Communications	Northeast	120,000
Vice President	——	Lighting products	East	120,000
Director	——	Biotechnology	West	113,000
Manager	Planning	Automotive	South	107,000
Vice President	Training	Insurance	Northeast	107,000
Program Director	Development	Chemicals	East	100,000
Manager	Benefits	Energy	Midwest	100,000
Manager	Benefits	Computers	East	100,000
Vice President	Office products	Computers	East	100,000
Vice President	Personnel	Printing	South	100,000
Senior Manager	Comp. & benefits	Banking	Midwest	93,000
Project Manager	Organization	Tobacco	West	93,000
Director	Development	Food	Southeast	92,000
Vice President	——	Utility	Southwest	90,000
Manager	——	Conglomerate	Southeast	88,000
Manager	——	Entertainment	East	87,000
Manager	Labor relations	Construction	South	85,000
Vice President	——	Food	East	85,000
Director	Compensation	Insurance	Southeast	81,000
Director	——	Publishing	East	80,000
Director	——	Insurance	Northeast	80,000
Director	——	Retailing	East	80,000
Director	——	Medical equipment	East	80,000
Manager	Training	Automotive	South	80,000
Manager	——	Banking	Midwest	80,000
Vice President	——	Health care	Southeast	80,000
Manager	——	Sporting goods	Midwest	78,000
Director	Labor relations	Rubber & plastics	East	75,000
Director	Benefits	Apparel	Midwest	75,000
Assistant VP	Comp. & benefits	Finance	West	75,000
Director	——	Utility	Southwest	75,000
Manager	Regional	Food	West	75,000

INFORMATION MANAGEMENT

TITLE	DUTY	INDUSTRY	LOCATION	SALARY
Vice President	CIO	Soap	Midwest	400,000
Vice President	MIS	Software	West	200,000
Director	Systems control	Resorts	West	187,000
Director	Systems development	Food service	Southwest	150,000
Senior VP	Systems	Insurance	Northeast	150,000
Vice President	Corporate systems	Chemicals	East	150,000
Director	Manufacturing	Paper	South	133,000
Vice President	Systems development	Trucking	West	133,000
Vice President	Integrated systems	Computers	Southeast	133,000
Vice President	——	Food	Midwest	126,000
Director	MIS	Pharmaceuticals	East	125,000
Director	——	Banking	Northeast	120,000
Director	Development	CAD/CAM	West	120,000
Vice President	Information	Communications	Northeast	120,000
Vice President	Data processing	Retailing	Midwest	115,000
Director	Automation	Investments	East	100,000
Profit Director	——	Computers	East	100,000
Manager	——	Electronics	East	100,000
Manager	Corporate	Power generators	Northeast	100,000
Vice President	——	Health care	West	100,000
Vice President	Data processing	Building products	South	90,000
Associate VP	MIS	Consumer products	Midwest	90,000
Senior Manager	Systems planning	Food	Midwest	80,000
Manager	Systems development	Accounting	East	80,000
Vice President	Systems	Investments	East	80,000

> ***"ACQUIRERS USUALLY THROW OUT THE TOP MANAGEMENT AND SOME OF THE MIDDLE MANAGERS, BUT THEN REPLACE THEM AND, OVER TIME, EXPAND."***
>
> *—Stephen Garrison, Ward Howell International, New York*

TITLE	DUTY	INDUSTRY	LOCATION	SALARY
Vice President	MIS	Health care	South	80,000
Asst. Director	Information services	Health care	South	75,000

RESEARCH AND DEVELOPMENT

TITLE	DUTY	INDUSTRY	LOCATION	SALARY
Vice President	Technology	Environmental	West	266,000
Associate VP	Biotechnology	Pharmaceuticals	East	250,000
Vice President	Research	Pharmaceuticals	West	240,000
Exec. Director	Immunology	Pharmaceuticals	East	180,000
Director	Chemistry	Pharmaceuticals	East	180,000
Vice President	——	Medical equipment	East	173,000
Vice President	Engineering	CAD/CAM	West	160,000
Vice President	Engineering	Appliances	East	153,000
Deputy Director	Chemical research	Resins	East	150,000
Vice President	Biotechnology	Pharmaceuticals	Midwest	150,000
Vice President	Design	Communications	Midwest	150,000
Vice President	——	Food	Midwest	150,000
Vice President	Systems	Printing	Northeast	147,000
Vice President	Technology	Electronics	Northeast	147,000
Senior Director	Research	Chemicals	East	140,000
Senior Director	Research	Pollution control	West	140,000
Vice President	Engineering	Rubber products	Northeast	133,000
Director	Engineering	Electronics	West	133,000
Director	Body systems	Automotive	South	133,000
Vice President	Research	Biotechnology	Southeast	133,000
Manager	Engineering	Aerospace	Northeast	132,000
Director	Avionics	Aerospace	West	127,000
Director	Engineering	Pharmaceuticals	East	125,000
Assoc. Director	Medical affairs	Pharmaceuticals	East	125,000
Assoc. Director	Clinical	Biotechnology	East	125,000
Director	Modeling	CAD/CAM	West	120,000
Director	Engineering	Garden equipment	West	120,000
Director	Development	Consumer products	Midwest	120,000
Director	Product development	Apparel	West	120,000
Vice President	Engineering	Durable goods	Northeast	120,000
Director	Nuclear	Utility	Southeast	115,000
Head Engineer	——	Computers	South	114,000
Vice President	——	Personal care	East	112,000
Vice President	Engineering	CAD/CAM	Northeast	108,000
Vice President	Engineering	Metal products	Midwest	108,000
Team Leader	Air-pollution control	Environmental engineering	West	107,000
Vice President	Engineering	Communications	South	104,000
Director	Technical	Rubber & plastics	Midwest	100,000
Director	——	Medical equipment	Midwest	100,000
Director	Development	Apparel	West	100,000
Director	——	Pharmaceuticals	Midwest	100,000
Director	——	Household products	Northeast	100,000
Sr. Chemist	——	Computers	East	93,000
Director	Product development	Health care	Midwest	90,000
Project Manager	Technical systems	Instrumentation	East	90,000
Vice President	Engineering	Data switching	East	90,000
Vice President	Engineering	Wood products	Southeast	90,000
Vice President	——	Medical equipment	Northeast	90,000
Princ. Engineer	Control products	Microwave	East	88,000
Senior Engineer	——	Utility	West	88,000
Project Manager	Electronic	Computers	West	87,000
Director	Engineering	Machinery	Midwest	85,000
Vice President	Metallurgy	Mining	Southwest	85,000
Sr. Consultant	Systems	Communications	Midwest	84,000
Director	Project engineering	Medical equipment	Northeast	80,000
Director	Technical services	Software	West	80,000
Manager	Development	Machinery	Midwest	80,000
Metallurgist	——	Mining	Southwest	80,000
Project Leader	Scanners	Computers	West	80,000
Chief Engineer	——	Transportation	East	80,000
Director	Chemical research	Biotechnology	East	75,000
Chief Engineer	——	Automotive parts	Midwest	75,000
Manager	Research	Pharmaceuticals	Northeast	75,000

MISCELLANEOUS

TITLE	DUTY	INDUSTRY	LOCATION	SALARY
Vice President	General counsel	Computer	East	400,000
Director	Corporate affairs	Financial services	East	300,000
Senior VP	Corporate affairs	Communications	East	267,000
Senior VP	Business affairs	Broadcasting	West	267,000
Senior VP	Housing	Real estate	West	200,000
Executive VP	Communications	Fertilizers	Northeast	200,000
Vice President	Corporate relations	Savings & loan	West	200,000
Vice President	Development	Real estate	East	200,000
Vice President	Development	Automotive	Midwest	182,000
Asst. Director	Public affairs	Energy	Midwest	169,000
Manager	Development	Real estate	West	167,000
Senior VP	Design	Retailing	West	160,000
Director	Government affairs	Machinery	Midwest	160,000
Director	Regulatory affairs	Pharmaceuticals	East	160,000
Publisher	Communications	Broadcasting	East	160,000
Vice President	Development	Real estate	Midwest	160,000
Vice President	——	Real estate	West	160,000
Director	Planning	Metals	East	156,000
Senior Attorney	——	Natural resources	East	150,000
General Counsel	——	Retailing	West	147,000
Vice President	Development	Real estate	West	147,000
Manager	Development	Electrical	East	135,000
Director	Mentor program	Hotels	East	133,000
Sr. Principal	——	Real estate	West	133,000
Account Exec.	——	Public relations	East	133,000
Regional Dir.	Industrial technology	Brokerage	East	133,000
Vice President	Communications	Communications	East	133,000
Vice President	Production	Broadcasting	West	132,000
Director	Communications	Health care	Midwest	127,000
Vice President	Administration	Energy	East	125,000
Director	Regulatory affairs	Chemicals	West	120,000
Director	Environmental	Utilities	Northeast	120,000
Manager	Industrial	Real estate	West	120,000
Vice President	General counsel	Banking	East	120,000
Vice President	Law	Aerospace	Southwest	115,000
Vice President	General counsel	Insurance	South	107,000
Manager	Planning	Insurance	East	100,000
Vice President	Medical affairs	Pharmaceuticals	East	100,000
Director	——	Entertainment	West	93,000
Director	Distribution	Pharmaceuticals	Midwest	90,000
Director	Management	Health care	East	90,000
Vice President	Security services	Banking	Midwest	90,000
Vice President	Purchasing	Engines & turbines	Midwest	90,000
Director	Economics	Transportation	West	85,000
Director	Development	Publishing	South	85,000
Director	Facilities	Publishing	East	85,000
Attorney	——	Wholesaling	Northeast	80,000
Director	Purchasing	Publishing	East	80,000
Manager	Exhibitions	Real estate	Southeast	80,000

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